



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

Report Number:
 511-0100-10

Department of Military and Veterans Affairs

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 Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Department's financial statements.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1, 2, and 4). We consider Finding 1 to contain a material weakness.

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

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*. However, we did identify other instances of noncompliance (Findings 2, 3, and 4).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$14,833,547 and known and likely questioned costs totaling \$16,362,235. The Department expended a total of \$154.8 million in federal awards during the two-year period ended September 30, 2009. We issued 2 unqualified opinions and 3 qualified opinions. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies in internal control over federal program compliance (Findings 5 through 9). We consider Findings 5 through 8 to be material weaknesses.

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Required Reporting of Noncompliance

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

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Systems of Accounting and Internal Control:

We determined that the Department 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 Title</u>	<u>Compliance Opinion</u>
12.400	Military Construction, National Guard	Qualified
12.401	<u>National Guard Military Operations and Maintenance (O&M) Projects</u> <ul style="list-style-type: none"> • National Guard Military Operations and Maintenance (O&M) Projects • ARRA - National Guard Military Operations and Maintenance (O&M) Projects 	Qualified
12.404	National Guard Civilian Youth Opportunities	Qualified
64.014	Veterans State Domiciliary Care	Unqualified
64.015	Veterans State Nursing Home Care	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.
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 30, 2010

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Boulevard
Lansing, Michigan

Dear General Cutler:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 2007 through September 30, 2009.

This report contains our report summary; our independent auditor's report on the financial statements; and the Department's financial statements, statement of certain General Fund assets and liabilities, and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains the Department'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 STATEMENTS



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

Independent Auditor's Report on the Financial Statements

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Boulevard
Lansing, Michigan

Dear General Cutler:

We have audited the accompanying financial statements of the Department of Military and Veterans Affairs' General Fund transactions for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Military and Veterans Affairs' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial statements do not purport to, and do not, constitute a complete financial presentation of the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of Military and Veterans Affairs 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 28, 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 the statement of certain General Fund assets and liabilities are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

June 28, 2010

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Statement of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	2009	2008
REVENUES		
From federal agencies:		
National Guard Bureau	\$ 54,604,110	\$ 45,443,181
Veterans Administration State Home Program	21,629,684	20,453,791
Medicare and Medicaid	3,232,386	3,011,735
U.S. Department of Education	130,271	99,817
U.S. Department of Health and Human Services	100,000	95,844
Total from federal agencies	\$ 79,696,451	\$ 69,104,368
From services:		
Cost-of-care assessments	\$ 20,721,517	\$ 21,020,907
Other services	414	
Total from services	\$ 20,721,931	\$ 21,020,907
Miscellaneous revenue:		
Local School Aid Fund (Note 4)	\$ 1,266,136	\$ 1,283,900
Miscellaneous	420,538	368,699
Armory Rental Program	92,828	78,513
Total miscellaneous revenue	\$ 1,779,502	\$ 1,731,112
Total revenues	\$ 102,197,884	\$ 91,856,387
OTHER FINANCING SOURCES	\$ 0	\$ 0
Total revenues and other financing sources	\$ 102,197,884	\$ 91,856,387

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Statement of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2009</u>	<u>2008</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 37,472,700	\$ 40,503,800
Balances carried forward	2,460,635	3,341,511
Restricted financing sources	102,673,750	92,305,790
Less: Intrafund expenditure reimbursement	(495,806)	(484,084)
Budgetary adjustment	<u>270</u>	
 Total	 <u>\$ 142,111,549</u>	 <u>\$ 135,667,017</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 121,798,729	\$ 122,405,326
Capital outlay	18,013,988	10,599,586
Less: Intrafund expenditure reimbursement	<u>(495,806)</u>	<u>(484,084)</u>
Net expenditures and transfers out	<u>\$ 139,316,911</u>	<u>\$ 132,520,828</u>
 Gross authorizations for carry forward	 \$ 2,794,638	 \$ 3,146,189
Balances lapsed	<u>(514,706)</u>	<u>(685,554)</u>
Net authorizations carried forward	<u>\$ 2,279,932</u>	<u>\$ 2,460,635</u>
 Balances carried forward:		
Encumbrances	\$ 323,027	\$ 418,882
Restricted revenues - authorized		953,448
Restricted revenues - not authorized or used	1,768,342	1,084,069
Multi-year projects	<u>188,563</u>	<u>4,236</u>
 Total balances carried forward	 <u>\$ 2,279,932</u>	 <u>\$ 2,460,635</u>

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

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the results of the Department of Military and Veterans Affairs' General Fund financial transactions for the fiscal years ended September 30, 2009 and September 30, 2008. The Department is one of 17 departments that record their activities in the General Fund. The General Fund is reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

In addition to its General Fund activities, the Department is also responsible for the supervision and direction of the Michigan Veterans' Trust Fund (a permanent fund) and the Military Family Relief Fund (a special revenue fund). Because these Funds do not receive federal funding, they are not included in the scope of this audit.

The notes accompanying these financial statements relate directly to the Department of Military and Veterans Affairs. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; other postemployment benefits; and compensated absences.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial statements 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 (GAAP). 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.

Because the Department is part of the State's General Fund, these financial statements do not purport to, and do not, constitute a complete financial presentation of the State's General Fund in conformity with GAAP. Because the Governmental Accounting Standards Board (GASB) has not established specific accounting and reporting standards for the reporting of less than a complete fund, the Department, in conjunction with the Department of Technology, Management & Budget (DTMB), based on guidance provided in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for State and Local Governments, has developed the statement of sources and disposition of General Fund authorizations. The Department believes that this statement best represents the results of the Department's operations (reflected on the gross authorizations for carry forward line) and the Department's financial position (reflected on the net authorizations carried forward line).

The resources available to the Department and how those resources may be used are established through the legislative appropriation process. Consequently, the statement of sources and disposition of General Fund authorizations is very similar to an operating statement. The statement reports the resources available to the Department for its General Fund operations: general purpose appropriations (from the general resources of the General Fund), authorization balances carried forward from the prior fiscal year, and restricted financing sources (revenue collected by the Department in the performance of its responsibilities). The statement also reports how those resources were used and what balance is available to the Department in the next fiscal year (similar to fund balance).

The statement of General Fund revenues and other financing sources provides information regarding the Department's collections of restricted revenue and other financing sources generated from the Department's operations.

The Department has included a statement of certain General Fund assets and liabilities as supplemental information. The statement reports only those assets and liabilities that are the responsibility of the Department.

In accordance with GAAP, amounts expended by the Department in the acquisition of capital assets are reported as capital outlay expenditures. The corresponding asset acquired is reported in the *SOMCAFR* on the government-wide financial statements. Under the modified accrual basis of accounting, capital assets are not reported in governmental funds. Note 6 provides information on those capital assets that are the responsibility of the Department.

In addition, the notes include various disclosures that provide information about liabilities of a long-term nature that are not reported in governmental funds under the modified accrual basis of accounting (see Note 5, Military Retirement Benefits; Note 7, Compensated Absences; Note 8, Pension Benefits; Note 9, Other Postemployment Benefits; and Note 10, Risk Management).

Note 2 Statement of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized 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. In addition to the amount recorded in the financial statements, the Department also has spending authorization available for large capital outlay projects that will be primarily financed through the collection of future federal revenue. Because the federal revenue has not yet been earned or received, the spending authorizations are not included on the statement of sources and dispositions of General Fund authorizations. The total amount of the spending authorizations was \$59,539,871 for fiscal year 2008-09 and \$78,669,276 for fiscal year 2007-08.

- c. 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. The Department's restricted financing sources include federal revenue, cost-of-care assessments, and local revenue for the ChalleNGe Program (Note 4).
- d. Intrafund expenditure reimbursement: The Department provided services to the Michigan Department of State Police for U.S. Department of Homeland Security grants. Because both departments are in the General Fund, the Department recorded the reimbursement received as an expenditure credit.
- e. 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.
- 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 - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenue carry-forwards may be expended for the purpose of the carry-forwards without additional legislative authorization. The balance reported in fiscal year 2007-08 (\$953,448) is the amount restricted for the Michigan National Guard Armory Construction Fund (Note 3).
- 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. In fiscal year 2008-09, significant carry-forwards of this type included federal assistance of \$395,167 from the U.S. Department of Veterans Affairs, \$331,801 in cost-of-care assessments collected by the Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans, and \$917,438 for the Michigan National Guard Armory Construction Fund (Note 3). In fiscal year 2007-08, the significant carry-forward was the \$975,137 in cost-of-care assessments collected by the Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans.

- i. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects, financed with general purpose authorizations that are carried forward to subsequent fiscal years for the completion of the projects. In fiscal year 2008-09, the Department carried forward amounts for special maintenance, remodeling, and additions of \$188,563.

Note 3 Michigan National Guard Armory Construction Fund

Act 150, P.A. 1967, created the Michigan National Guard Armory Construction Fund as a subfund of the General Fund. The proceeds from the sale of capital assets (land and armories) and interest earnings are deposited in the Fund and restricted for use in funding State armory capital outlay projects. In fiscal year 2008-09, the Office of Financial Management, Office of the State Budget, reevaluated the classification of the restricted revenue carry-forward. This resulted in the reclassification of the restricted revenue carry-forward from authorized to non-authorized. The balance of the Fund was \$917,438 at September 30, 2009 and \$953,448 at September 30, 2008. The Department used \$48,848 in fiscal year 2008-09 and \$684,006 in fiscal year 2007-08.

Note 4 ChalleNGe Program

The ChalleNGe Program is for high school dropouts aged 16 to 18 upon entry. The goal of the Program is to use the National Guard to improve education, life skills, and employment potential of participants by use of military-based training and supervised work experience. The Program is administered by the Department and funded in part with federal funds requiring a 40% match, which is provided from the School Aid Fund through the Battle Creek Public School District.

As required by Section 24c of both Act 268, P.A. 2008, and Act 137, P.A. 2007, the Department has entered into a contract with the Battle Creek Public School District that outlines the terms and conditions upon which the District will utilize the Program funding. In summary, the Battle Creek Public School District received a distribution from the School Aid Fund of \$1,266,136 for fiscal year 2008-09 and \$1,283,900 for fiscal year 2007-08. The contract directs the District to request, receive, and deposit these funds in the District's checking account and then, using a check drawn on the District's checking account, to return these funds to the Department. The Department reports these funds as miscellaneous revenue. The contract further requires the Department to utilize all funds received from the District to provide the State's 40% match requirement for the ChalleNGe Program.

Note 5 Military Retirement Benefits

The Department received annual appropriations for military retirement benefits for the Michigan National Guard members and special duty officers. These appropriations are made from the General Fund on a pay-as-you-go basis. Except for five special duty members, retirants receive \$600 in annual pension benefits.

Expenditures for the military retirement plan totaled \$3,382,445 for fiscal year 2008-09 and \$3,200,601 for fiscal year 2007-08. The actuarially determined unfunded liabilities (performed biennially) for the military retirement plan as of September 30, 2009 totaled \$42.3 million. The *SOMCAFR* provides more extensive disclosures regarding the military retirement plan.

Note 6 Capital Assets

Capital assets, which include land, buildings, and equipment, are reported at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisition have been estimated.

Capitalization policies: All land and nondepreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceeds \$5,000, and all other capital assets are capitalized when the cost of individual items or projects exceeds \$100,000.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are not capitalized.

The amounts reported for capital assets have not been reduced for accumulated depreciation. Depreciation is recorded under the accrual basis of accounting and is reported in the State's government-wide financial statements. Information on the State's depreciation policies is available in the *SOMCAFR*.

	Balance at September 30, 2008	Additions	Deletions/ Adjustments	Balance at September 30, 2009
Land	\$ 9,674,940	\$ 158,604	\$	\$ 9,833,544
Buildings	231,104,339	9,387,888	709,620	241,201,847
Construction in progress	5,908,905	8,213,695	1,700	14,124,300
Equipment	6,693,474	108,975	(73,231)	6,729,218
Total	\$253,381,658	\$17,869,162	\$638,089	\$271,888,909

	Balance at September 30, 2007	Additions	Deletions/ Adjustments	Balance at September 30, 2008
Land	\$ 9,208,263	\$ 486,956	\$ (20,279)	\$ 9,674,940
Buildings	188,876,274	17,197,205	25,030,860	231,104,339
Construction in progress	33,006,118	2,134,702	(29,231,916)	5,908,904
Equipment	6,677,744	164,899	(149,169)	6,693,474
Total	\$237,768,399	\$19,983,762	\$ (4,370,504)	\$253,381,657

Note 7 Compensated Absences

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with GAAP, as it is probable that the State will compensate employees through paid time off for the hours earned in excess of the total that may be paid off. The liability for annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employees' sick leave accumulation times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50%, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50% plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2009.

The State instituted a banked leave time program in fiscal year 2003-04 whereby eligible employees worked a regular schedule but received pay for a reduced number of hours. The banked leave time program was continued in fiscal years 2004-05 and 2005-06. The program was discontinued in fiscal year 2005-06. The unpaid hours worked accrued to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State's 401(k) plan and, if applicable, to the State's 457 plan. The banked leave liability, included with the annual leave liability, is valued at the pay rates in effect as of September 30, the fiscal year-end.

The estimated compensated absences liabilities for the Department employees for the fiscal years ended September 30, 2009 and September 30, 2008 are reported in the following table:

	September 30	
	2009	2008
Annual leave	\$4,789,210	\$5,045,204
Sick leave	\$ 945,847	\$1,169,516

Note 8 Pension Benefits

State classified employees who work on the Department programs are covered by two single employer pension plans offered by the State of Michigan: the State Employees' Defined Benefit Retirement Plan and the State Employees' Defined Contribution Retirement Plan (Plans). Detailed information regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements,

actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports.

In addition to the Plans, State classified employees have the option to invest a portion of their salaries into 401(k) and 457 deferred compensation plans. Generally, the Department does not make any contributions to the deferred compensation plans.

For the State Employees' Defined Benefit Retirement Plan, the Department was billed and paid an average of 30.6% (\$9,959,375) and 29.3% (\$9,439,131) of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2008-09 and 2007-08, respectively. For the State Employees' Defined Contribution Retirement Plan, the Department is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. The Department contributions totaled \$1,417,301 and \$1,352,295 for fiscal years 2008-09 and 2007-08, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management & Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

Note 9 Other Postemployment Benefits

State statutes require that the Department provide certain other postemployment benefits to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. These benefits are funded on a pay-as-you-go basis.

Note 10 Risk Management

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage,

and employee bonding. Settled claims have not exceeded commercial coverage in any of the past 10 fiscal years.

For unemployment claims, the Unemployment Insurance Agency bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by the Unemployment Insurance Agency through September 30. During fiscal years 2008-09 and 2007-08, expenditures for payments to former Department employees totaled \$177,189 and \$179,503. The potential liability for future payments cannot be estimated.

The Department also paid actual workers' compensation claims and administrative fees for Department employees totaling \$15,382 and \$7,948 in fiscal years 2008-09 and 2007-08, respectively.

**SUPPLEMENTAL
FINANCIAL STATEMENT AND SCHEDULE**

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Statement of Certain General Fund Assets and Liabilities
As of September 30

	<u>2009</u>	<u>2008</u>
ASSETS		
Accounts receivable from federal agencies	\$ 19,942,900	\$ 18,666,603
Due from component units	54,227	60,000
Miscellaneous accounts receivable	56,880	67,608
Inventories	43,457	43,457
	<u>\$ 20,097,464</u>	<u>\$ 18,837,668</u>
LIABILITIES		
Accounts payable	\$ 9,579,021	\$ 10,429,869
Deferred revenue	79,689	81,629
Due to other funds	21,584	10,181
Other liabilities	554,794	206,218
	<u>\$ 10,235,088</u>	<u>\$ 10,727,897</u>

This statement is not a balance sheet and is not intended to report financial position. The statement presents certain General Fund assets and liabilities that are the responsibility of the Department of Military and Veterans Affairs. The statement does not include assets and liabilities that are accounted for centrally by the State, such as land, buildings, equipment, equity in common cash, cash in transit, and warrants outstanding.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2008 through September 30, 2009

Federal Agency/Program	CFDA * Number	For the Fiscal Year Ended September 30, 2008			Total Expended, Distributed, and In-Kind Assistance
		Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 2)	
U.S. Department of Defense					
Direct Programs:					
Military Construction, National Guard	12.400	\$ 2,150,730	\$	\$	\$ 2,150,730
Total Military Construction, National Guard		<u>\$ 2,150,730</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,150,730</u>
National Guard Military Operations and Maintenance (O&M) Projects:					
Appendix 1 Army National Guard Real Property Operations and Maintenance (Note 3)	12.401	\$ 23,618,799	\$	\$ 744,693	\$ 24,363,492
Appendix 2 Army National Guard Environmental Resources Management	12.401	1,871,281		201,946	2,073,227
Appendix 3 Army National Guard Security Guard Activities	12.401	1,637,205			1,637,205
Appendix 4 Army National Guard Electronic Security System Operations & Maintenance	12.401	122,203			122,203
Appendix 5 Army National Guard Telecommunications	12.401	1,149,444			1,149,444
Appendix 7 Army National Guard Sustainable Range Program	12.401	1,686,663		674,905	2,361,568
Appendix 10 Army National Guard Antiterrorism Program Manager Activities	12.401	94,342			94,342
Appendix 14 Office of the Chief - Administrative Services Activities	12.401	33,100			33,100
Appendix 21 Air National Guard Facilities Operations and Maintenance Activities	12.401	2,742,021		4,564,154	7,306,175
Appendix 22 Air National Guard Environmental Program Management	12.401	167,225			167,225
Appendix 23 Air National Guard Security Guard Services	12.401	2,565,851			2,565,851
Appendix 24 Air National Guard Fire Protection Activities	12.401	3,674,578		68,186	3,742,764
Appendix 28 Air National Guard CRTC Services Program Management	12.401				
Appendix 30 Air National Guard CRTC Base Operations Support	12.401				
Appendix 40 Army National Guard Distance Learning Project	12.401	77,317			77,317
Total Non-ARRA National Guard Military Operations and Maintenance (O&M) Projects		<u>\$ 39,440,029</u>	<u>\$ 0</u>	<u>\$ 6,253,884</u>	<u>\$ 45,693,913</u>
ARRA - National Guard Military Operations and Maintenance (O&M) Projects	12.401				0
Total National Guard Military Operations and Maintenance (O&M) Projects		<u>\$ 39,440,029</u>	<u>\$ 0</u>	<u>\$ 6,253,884</u>	<u>\$ 45,693,913</u>
National Guard Civilian Youth Opportunities:					
ChalleNGe Program	12.404	\$ 2,169,676	\$	\$	\$ 2,169,676
Starbase Program	12.404		1,792,595		1,792,595
Total National Guard Civilian Youth Opportunities		<u>\$ 2,169,676</u>	<u>\$ 1,792,595</u>	<u>\$ 0</u>	<u>\$ 3,962,271</u>
Total U.S. Department of Defense		<u>\$ 43,760,435</u>	<u>\$ 1,792,595</u>	<u>\$ 6,253,884</u>	<u>\$ 51,806,914</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2009				Total Expended, Distributed, and In-Kind Assistance for the Two-Year Period
Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 2)	Total Expended, Distributed, and In-Kind Assistance	
\$ 7,491,084	\$	\$	\$ 7,491,084	\$ 9,641,814
\$ 7,491,084	\$ 0	\$ 0	\$ 7,491,084	\$ 9,641,814
\$ 28,270,199	\$	\$	\$ 28,270,199	\$ 52,633,691
1,636,673		6,873	1,643,546	3,716,773
1,635,202			1,635,202	3,272,407
112,013			112,013	234,216
1,235,033			1,235,033	2,384,477
1,009,697		164,157	1,173,854	3,535,422
97,635			97,635	191,977
12,926		607,374	620,300	653,400
2,257,554		4,666,498	6,924,052	14,230,227
164,365			164,365	331,590
2,668,738			2,668,738	5,234,589
3,508,181		54,975	3,563,156	7,305,920
201,488		215,333	416,821	416,821
127,030			127,030	127,030
84,699			84,699	162,016
\$ 43,021,433	\$ 0	\$ 5,715,210	\$ 48,736,643	\$ 94,430,556
187,255			187,255	187,255
\$ 43,208,688	\$ 0	\$ 5,715,210	\$ 48,923,898	\$ 94,617,811
\$ 2,525,444	\$ 1,565,645	\$	\$ 2,525,444	\$ 4,695,120
\$ 2,525,444	\$ 1,565,645	\$ 0	\$ 4,091,089	\$ 8,053,360
\$ 53,225,216	\$ 1,565,645	\$ 5,715,210	\$ 60,506,071	\$ 112,312,985

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2008 through September 30, 2009
(Continued)

Federal Agency/Program	CFDA * Number	For the Fiscal Year Ended September 30, 2008			Total Expended, Distributed, and In-Kind Assistance
		Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 2)	
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
Grants to States for Construction of State Home Facilities ARRA - Grants to States for Construction of State Home Facilities	64.005	\$ 9,798	\$	\$	\$ 9,798
Veterans State Domiciliary Care	64.014	1,215,824			1,215,824
Veterans State Nursing Home Care	64.015	19,186,840			19,186,840
Total U.S. Department of Veterans Affairs (Note 3)		\$ 20,412,462	\$ 0	\$ 0	\$ 20,412,462
<u>U.S. Department of Education</u>					
Pass-Through Program:					
Michigan Department of Community Health (Note 4) Safe and Drug-Free Schools and Communities: State Grants	84.186	\$ 99,817	\$	\$	\$ 99,817
Total U.S. Department of Education		\$ 99,817	\$ 0	\$ 0	\$ 99,817
<u>U.S. Department of Health and Human Services</u>					
Pass-Through Program:					
Michigan Department of Community Health (Note 4) Centers For Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 95,844	\$	\$	\$ 95,844
Total U.S. Department of Health and Human Services		\$ 95,844	\$ 0	\$ 0	\$ 95,844
Total Expenditures of Federal Awards		\$ 64,368,558	\$ 1,792,595	\$ 6,253,884	\$ 72,415,037

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

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2009				Total Expended, Distributed, and In-Kind Assistance for the Two-Year Period
Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 2)	Total Expended, Distributed, and In-Kind Assistance	
\$	\$	\$	\$ 0	\$ 9,798
129,739			129,739	129,739
1,320,994			1,320,994	2,536,818
20,171,643			20,171,643	39,358,483
\$ 21,622,376	\$ 0	\$ 0	\$ 21,622,376	\$ 42,034,838

\$ 130,271	\$	\$	\$ 130,271	\$ 230,088
\$ 130,271	\$ 0	\$ 0	\$ 130,271	\$ 230,088

\$ 100,000	\$	\$	\$ 100,000	\$ 195,844
\$ 100,000	\$ 0	\$ 0	\$ 100,000	\$ 195,844
\$ 75,077,863	\$ 1,565,645	\$ 5,715,210	\$ 82,358,718	\$ 154,773,755

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule presents the federal grant activity of the Department of Military and Veterans Affairs on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget 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 statements.

Note 2 In-Kind Assistance*

As part of the National Guard Bureau Cooperative Agreement, the U.S. Department of Defense provided in-kind assistance in the form of direct federal payment for services and supplies for the military operations and maintenance projects. The in-kind assistance dollar amounts reported on this schedule were determined and obtained from the Michigan U.S. Property and Fiscal Office.

Note 3 Medicare and Medicaid Revenue

The Grand Rapids Home for Veterans (GRHV) and the D.J. Jacobetti Home for Veterans received federal Medicare revenue totaling \$2,882,640 in fiscal year 2007-08 and \$3,108,910 in fiscal year 2008-09. GRHV and the D.J. Jacobetti Home for Veterans received federal Medicaid revenue totaling \$129,095 in fiscal year 2007-08 and \$123,476 in fiscal year 2008-09. Medicare and Medicaid revenue is not considered federal assistance, but rather a purchase of services provided by the Homes. Therefore, a purchase of service funded by Medicare and Medicaid revenue is not included in this schedule.

Note 4 Pass-Through Identification Numbers

The pass-through entity* did not provide the Department with pass-through identification numbers.

* See glossary at end of report for definition.

Note 5 Federal Revenue

The amounts of expenditures reported on this schedule are not comparable to the federal revenue as shown on the statement of General Fund revenues and other financing sources for the Department. The differences are attributable to in-kind assistance and account payable write-offs related to the Military Construction, National Guard (CFDA 12.400) and National Guard Military Operations and Maintenance (O&M) Projects (CFDA 12.401).

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

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Boulevard
Lansing, Michigan

Dear General Cutler:

We have audited the financial statements of the Department of Military and Veterans Affairs 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 28, 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 statements, 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 statements 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, 2, and 4 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 statements 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, of the significant deficiencies described in the third paragraph of this section, we consider Finding 1 to contain a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements 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 statement 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 instances of noncompliance as described in Findings 2, 3, and 4.

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 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 28, 2010



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

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

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Boulevard
Lansing, Michigan

Dear General Cutler:

Compliance

We have audited the compliance of the Department of Military and Veterans Affairs 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.

As described in Findings 5 through 8 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; Davis-Bacon Act; eligibility; period of availability of federal funds; procurement and suspension and debarment; and reporting that are applicable to its Military Construction, National Guard; National Guard Military Operations and Maintenance (O&M) Projects; and National Guard Civilian Youth Opportunities Programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Military and Veterans Affairs 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. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB

Circular A-133 and which are contained in the accompanying schedule of findings and questioned costs as Findings 8 and 9.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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 Findings 5 through 9 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. Of the significant deficiencies described in the preceding paragraph, we consider Findings 5 through 8 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 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 28, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	
Military Construction, National Guard	Qualified*
National Guard Military Operations and Maintenance (O&M) Projects	Qualified
National Guard Civilian Youth Opportunities	Qualified
Veterans State Domiciliary Care	Unqualified
Veterans State Nursing Home Care	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

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
12.400	Military Construction, National Guard
12.401	<u>National Guard Military Operations and Maintenance (O&M) Projects</u> <ul style="list-style-type: none">• National Guard Military Operations and Maintenance (O&M) Projects• ARRA - National Guard Military Operations and Maintenance (O&M) Projects
12.404	National Guard Civilian Youth Opportunities
64.014	Veterans State Domiciliary Care
64.015	Veterans State Nursing Home Care

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements

FINDING (5111001)

1. Schedule of Expenditures of Federal Awards (SEFA)

The Department's internal control over financial reporting did not ensure that the Department prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133 requires the Department to prepare appropriate financial statements, including the SEFA, and to maintain internal control that provides reasonable assurance regarding the reliability of its financial reporting.

* See glossary at end of report for definition.

The Department's processes and procedures for preparing its SEFA did not ensure a complete and accurate reporting of federal awards expended on its SEFA. Our review of the Department's SEFA preparation process and its SEFA disclosed:

- a. The Department's internal control did not ensure that it obtained complete in-kind assistance information of federal awards from the U.S. Property and Fiscal Office (USPFO). As a result, the Department did not include in-kind assistance on behalf of the National Guard Military Operations and Maintenance (O&M) Projects (*CFDA* 12.401) for Appendixes 1 and 7 on its SEFA for fiscal year 2008-09. The average annual in-kind assistance, reported by the Department, for fiscal years 2005-06 through 2007-08 was \$2,160,523 and \$313,231 for Appendix 1 and Appendix 7, respectively.

The Department informed us that it did not receive complete in-kind assistance information from the USPFO regarding Appendixes 1 and 7 for fiscal year 2008-09. Our review disclosed that the Department did not follow its procedure to notify the USPFO Grants Officer Representative (GOR) and the USPFO appointee in writing to obtain in-kind assistance information of federal awards. The Department's process for obtaining in-kind assistance of federal awards includes receiving closeout modifications from the USPFO GOR. When the modifications are not received on a timely basis, the Department's federal accountant will attempt to contact the USPFO GOR. If the modifications are not timely received after the end of the State's fiscal year, the Department's chief accountant will notify the USPFO GOR in writing and follow up every 30 days until the information is received. If the information is not received within 90 days, the chief accountant will notify the USPFO appointee in writing that the information is past due the federally mandated deadline.

OMB Circular A-133 requires the Department to disclose on its SEFA the value of the federal awards expended in the form of noncash (in-kind) assistance.

- b. The Department's internal control did not ensure that it obtained closeout modifications from the USPFO GOR to report in-kind assistance on its SEFA for the two-year period ended September 30, 2009.

Our review disclosed that the Department used handwritten notes and e-mails to report \$6,185,698 and \$171,030 of in-kind assistance for fiscal years 2007-08 and 2008-09, respectively. Also, we could not determine if the USPFO GOR provided this information because these notes and e-mails did not always state the source of the information.

The Department's administrative manual states that in-kind assistance will be obtained on a closeout modification from the USPFO GOR.

- c. The Department understated the amount reported as total expended, distributed, and in-kind assistance for the National Guard Civilian Youth Opportunities Challenge Program (*CFDA* 12.404) by \$22,157 for fiscal year 2007-08 and overstated the amount by \$13,294 for fiscal year 2008-09.

The Department relied on certain accounting information within the State's accounting system to identify federal awards expended. However, the Department did not make the appropriate adjustments when preparing its SEFA. The Department informed us that it made a \$22,157 purchase in fiscal year 2007-08 with State funds. However, after the close of the State's 2007-08 fiscal year, the Department realized that this purchase was eligible for federal reimbursement. The Department stated that it sought federal reimbursement for this expenditure in fiscal year 2008-09. Also, the Department informed us that it recorded an adjusting entry in its accounting records to report the expenditures as 60% federal and 40% State. However, these expenditures were eligible for and the Department received reimbursement at 100%, but it did not make another adjustment in its accounting records to reflect the 100% federal reimbursement. As a result, the Department reported 60% (\$13,294) of the 2007-08 expenditures on the 2008-09 SEFA and did not report 40% (\$8,863) on the fiscal year 2007-08 SEFA. These adjustments could not be made in the State's accounting records because the records were closed.

OMB Circular A-133 requires that the SEFA provide total federal awards expended for each individual program and that the Department identify in its accounts all federal awards received and expended and the federal programs under which they were received.

- d. The Department incorrectly reported expenditures of \$52,420 as Appendix 6 instead of reporting them as Appendix 1 on the SEFA for the two-year period ended September 30, 2009.

After we brought this issue to the Department's attention, it appropriately revised its SEFA for the two-year period ended September 30, 2009 that is presented in this report.

A formal policy to review federal and interagency grant agreements when preparing the SEFA would help ensure that the Department accurately reports expenditures on the SEFA.

We reported similar conditions in our prior Single Audit*.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS INTERNAL CONTROL OVER FINANCIAL REPORTING TO ENSURE THAT THE DEPARTMENT PREPARES ITS SEFA IN ACCORDANCE WITH OMB CIRCULAR A-133.

FINDING (5111002)

2. Federal Reimbursements

The Department needs to improve its process for requesting federal reimbursement to help ensure timely collection of federal funds. Improvement in the Department's federal reimbursement process would minimize the Department's negative cash position, increase an opportunity for the State to earn \$151,000 interest revenue, and reduce the State's costs associated with its operations of certain federal programs.

The Department's federal reimbursement requests are to be made in accordance with Section 18.1395(1) of the *Michigan Compiled Laws* and Department of Technology, Management & Budget (DTMB) Administrative Guide procedure 1210.06. The DTMB procedure requires the Department to minimize the time elapsing between the transfer of federal funds from the U.S. Department of Treasury and the disbursement of funds by the State. Further, Section 18.1395(5)

* See glossary at end of report for definition.

of the *Michigan Compiled Laws* requires that, for appropriations financed with multiple sources, restricted funds are to be expended first.

The Department collected federal funds on a reimbursement basis to administer the operations of the Military Construction, National Guard Program (CFDA 12.400), National Guard Military Operations and Maintenance (O&M) Projects Program (CFDA 12.401), and National Guard Civilian Youth Opportunities Program (CFDA 12.404). The Department initially paid for the operations of these Programs using State funds and then billed the federal government for the federal share of the costs incurred. Our review of the Department's federal reimbursement process disclosed:

- a. The Department used a federal reimbursement process that, the Department informed us, generally took 76 days for expenditures that were not related to personnel costs or special maintenance projects. We do not consider the Department's 76-day federal reimbursement process to be reasonable because it did not closely match the transfer of federal funds from the U.S. Department of Defense with the disbursement of State funds. Many other State departments with large federal programs operate under federal reimbursement time frames of 1 to 7 days. The Department informed us that it was limited in its ability to collect timely reimbursements because the National Guard USPFO could only process reimbursement requests once every 30 days.

If the Department had collected federal reimbursement for the Military Construction, National Guard Program (CFDA 12.400), National Guard Military Operations and Maintenance (O&M) Projects Program (CFDA 12.401), and National Guard Civilian Youth Opportunities Program (CFDA 12.404) operations within 30 days of the date the State warrant was paid, compared to the date the federal reimbursement was received, the Department could have reduced its average quarterly negative cash position of \$3,509,000 and provided the State with an opportunity to earn an estimated \$19,000 and \$132,000 in interest revenue in fiscal years 2008-09 and 2007-08, respectively. Negative cash position occurs during the time period when a State warrant is paid (State funds are used) and the Department has not collected federal reimbursement for federal program costs.

- b. The Department did not always adhere to its process and collect federal reimbursement within 76 days.

Our analysis identified that if the Department would have followed its 76-day process, it would have provided the State with the opportunity to earn an estimated \$20,000 in interest revenue in fiscal year 2007-08.

We reported a similar condition in our prior Single Audit. The Department informed us that it requested and obtained advances for its O&M Projects Program for salaries and wages in addition to using the reimbursement process. The Department implemented this corrective action and our test results indicated that there was a reduction in negative cash flow and interest lost since the prior audit. However, the Department should study its process to find further ways to substantially reduce its 76-day process to eliminate lost interest.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS PROCESS FOR REQUESTING FEDERAL REIMBURSEMENT TO HELP ENSURE TIMELY COLLECTION OF FEDERAL FUNDS.

FINDING (5111003)

3. Revenue Classification

The Department did not classify certain revenues by the correct revenue source. As a result, for fiscal year 2008-09, miscellaneous revenue was overstated by \$1,483,660, local revenue was understated by \$1,429,433, and service revenue was understated by \$54,227. In addition, for fiscal year 2007-08, miscellaneous revenue was overstated by \$1,471,989, local revenue was understated by \$1,411,989, and service revenue was understated by \$60,000.

Section 1800.115 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), requires governmental fund revenues to be classified by fund and source.

Our review of the Department's revenue transactions disclosed:

- a. The Department improperly classified \$1,429,433 and \$1,411,989 of revenues received from the Battle Creek Public School District as miscellaneous revenues in fiscal years 2008-09 and 2007-08, respectively. These revenues were collected from a local unit of government to help support expenditures related to the Michigan Youth Challenge Academy. As a result, the Department should have classified these revenues as revenues from local units.
- b. The Department improperly classified \$54,227 and \$60,000 of revenues received from the Mackinac Bridge Authority as miscellaneous revenues in fiscal years 2008-09 and 2007-08, respectively. These revenues were earned by providing security services at the Mackinac Bridge Walk event. As a result, the Department should have classified these revenues as revenues from services.

RECOMMENDATION

We recommend that the Department classify revenues under the correct revenue source.

FINDING (5111004)

4. Internal Control Over Procurement

The Department's internal control did not ensure that it complied with State procurement policies when purchasing certain services. This finding is included in Section III of the schedule of findings and questioned costs* (5111007).

* See glossary at end of report for definition.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (5111005)

5. Military Construction, National Guard, CFDA 12.400

U.S. Department of Defense	CFDA 12.400: Military Construction, National Guard
MCCA Number: DAHA20-03-2-2002 W912JB-04-2-2001 W912JB-04-2-2002 W912JB-05-2-2001 W912JB-08-2-2002	MCCA Date: February 3, 2004 September 22, 2004 September 22, 2004 March 3, 2005 December 19, 2007
	Known Questioned Costs: \$969,020

The Department's internal control over the Military Construction (MILCON), National Guard Program did not ensure its compliance with federal laws and regulations and cooperative agreement requirements regarding period of availability of federal funds.

Our review disclosed material noncompliance and a material weakness in internal control over period of availability of federal funds. As a result, we issued a qualified opinion on compliance with federal regulations and cooperative agreements for the MILCON, National Guard Program.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of MILCON, National Guard Program awards.

Federal expenditures for the MILCON, National Guard Program totaled \$9.6 million for the two-year period ended September 30, 2009. We identified questioned costs totaling \$969,020.

During fiscal years 2001-02, 2003-04, 2004-05, and 2007-08, the federal National Guard Bureau (NGB) and the State of Michigan entered into 7 Military Construction Cooperative Agreements (MCCAs) for various construction projects. The Department completed 5 of these projects before or during our audit period. For

those projects completed before our audit period, the Department made payments to contractors and requested MILCON reimbursement during our audit period.

The Department and the National Guard USPFO complete an NGB Project Inspection Report (Form 593R) at half and final completion of each MILCON project. National Guard Regulation 5-1 and Section 306 of the MCCA stipulate that within 90 days of final completion of a MILCON project or upon termination of the MCCA, whichever comes earlier, the Department shall promptly deliver to the NGB a full and final accounting liquidating all payments or reimbursements under the MCCA. Section 306 of the MCCA also states that the 90-day time frame begins when NGB Form 593R is completed by the State and USPFO. Costs incurred for performance of the project which are not disclosed by the Department within 90 days of the final completion of the project shall not be eligible for reimbursement by the NGB. At its sole discretion, the NGB may extend the 90-day limit for good cause shown.

The Department did not deliver to the NGB full and final accountings liquidating all payments or reimbursements within 90 days of the final completion for all 5 projects reviewed or obtain the NGB's approval to extend the 90-day limit. Our procedures identified 9 reimbursements for which the Department's request was after the 90-day limit, and 7 of the 9 reimbursements were 90 days or more past the 90-day limit. In addition, the Department did not properly complete Form 593R for final completion for 4 of the 5 completed projects. The Department did not sign 3 of the final Form 593Rs and the Department did not date 1 of the final Form 593Rs. We determined that the Department had not implemented internal control to ensure the timely delivery to the NGB of full and final accountings liquidating all payments or reimbursements for completed projects and to ensure that Form 593Rs were properly completed and signed. As a result, we questioned costs totaling \$969,020.

RECOMMENDATION

We recommend that the Department strengthen its internal control over the MILCON, National Guard Program to ensure compliance with federal laws and regulations regarding period of availability of federal funds.

FINDING (5111006)

6. ARRA - National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401

U.S. Department of Defense	CFDA 12.401: ARRA - National Guard Military Operations and Maintenance (O&M) Projects
Master Cooperative Agreement: W912JB-09-2-9005	Award Period: 07/07/2009 – 09/30/2010
	Known Questioned Costs: \$187,255

The Department's internal control did not ensure that O&M Projects funded by the American Recovery and Reinvestment Act of 2009 (ARRA) complied with ARRA requirements regarding activities allowed or unallowed, the Davis-Bacon Act, and procurement and suspension and debarment compliance requirements. Our review disclosed material noncompliance with compliance requirements related to the Davis-Bacon Act and procurement and suspension and debarment and material weaknesses in internal control over activities allowed or unallowed, the Davis-Bacon Act, and procurement and suspension and debarment compliance requirements for ARRA funded O&M Projects.

Noncompliance with ARRA requirements could result in sanctions, disallowances and/or future reductions in O&M Projects awards.

ARRA expenditures for O&M Projects totaled \$187,255 for the period ended September 30, 2009. These expenditures were funded by an ARRA grant award that totaled \$7,846,000.

Our exceptions for ARRA funded O&M Projects, by compliance area, are as follows:

a. Activities Allowed or Unallowed

The Department's internal control did not ensure that O&M Project expenditures funded by ARRA were properly reviewed and approved.

We reviewed all 6 ARRA funded O&M Project expenditures that occurred during our audit period. Our review disclosed that 2 (33%) of 6 ARRA funded expenditures did not include a program manager's approval before payments were made. Program manager reviews and approvals of O&M Project expenditures are key controls because they help ensure that the expenditures

were for activities that actually occurred and were allowable per ARRA requirements.

b. Davis-Bacon Act

The Department did not have policies or procedures in place to ensure compliance with the Davis-Bacon Act for construction projects funded with ARRA awards. As a result, the Department did not comply with Davis-Bacon Act requirements and we questioned costs totaling \$187,255.

Section 1606 of ARRA and the OMB implementing guidance for ARRA require that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality for the project by the U.S. Department of Labor.

Our review disclosed that the Department did not include Davis-Bacon Act clauses and certifications within its contracts to inform its contractors of the requirement to pay prevailing federal wage rates. Also, our review disclosed that the Department did not monitor the wages of its contractors and subcontractors expending ARRA funds for construction activities to ensure that the Department and its contractors complied with the Davis-Bacon Act.

c. Procurement and Suspension and Debarment

The Department did not have policies or procedures in place to ensure compliance with "Buy American" requirements for construction projects funded with ARRA awards. As a result, we questioned costs totaling \$187,255, which were also questioned in part b. of this finding.

Section 1605 of ARRA and the OMB implementing guidance for ARRA prohibit the use of ARRA funds for a project for construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.

Our review disclosed that the Department did not obtain certifications and evidence from its contractors that materials used for ARRA-funded construction, alteration, maintenance, or repair of a public building or public work complied with the Buy American requirements. Also, our review

disclosed that the Department did not include Buy American clauses within its contracts to inform its contractors of the requirement.

The Department informed us that it became aware that it was required to adhere to the Davis-Bacon Act and the Buy American requirements after it established the contracts. However, the Department did not implement any monitoring procedures and did not execute contract amendments to include such clauses and certifications after it became aware of these requirements. Future ARRA funding for the construction contracts will be significant. The establishment of a monitoring process is especially critical because of the increased federal authorization received for future years (\$7.8 million).

RECOMMENDATION

We recommend that, for O&M Projects funded by ARRA, the Department improve its internal control over and compliance with ARRA requirements regarding activities allowed or unallowed, the Davis-Bacon Act, and procurement and suspension and debarment.

FINDING (5111007)

7. National Guard Military Operations and Maintenance (O&M) Projects, CFDA 12.401

U.S. Department of Defense	CFDA 12.401: National Guard Military Operations and Maintenance (O&M) Projects
Master Cooperative Agreement: W912JB-04-2-1000	Appendix 1 - Army National Guard Real Property Operations and Maintenance Appendix 2 - Army National Guard Environmental Resources Management Appendix 3 - Army National Guard Security Guard Activities Appendix 5 - Army National Guard Telecommunications Appendix 7 - Army National Guard Sustainable Range Program Appendix 10 - Army National Guard Antiterrorism Program Manager Activities Appendix 21 - Air National Guard Facilities Operations and Maintenance Activities Appendix 22 - Air National Guard Environmental Program Management Appendix 23 - Air National Guard Security Guard Services Appendix 28 - Air National Guard CRTC Services Program Management Appendix 30 - Air National Guard CRTC Base Operations Support
	Known Questioned Costs: \$13,677,272

The Department's internal control over the O&M Projects Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, period of availability, and procurement and suspension and debarment. Our review disclosed material weakness in internal control and material noncompliance with requirements related to activities allowed or unallowed and allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the O&M Projects Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of O&M Projects Program awards.

Federal expenditures for the O&M Projects Program totaled \$94.6 million for the two-year period ended September 30, 2009. We identified known questioned costs of \$13,677,272 and known and likely questioned costs totaling \$15,205,960.

Our exceptions, for the O&M Projects Program, by compliance area, are as follows:

a. Activities Allowed or Unallowed

Our review of activities allowed or unallowed disclosed:

- (1) The Department did not have internal control over the O&M Projects Program to prevent it from incurring expenditures and requesting reimbursement in excess of the maximum funding limitations specified by the O&M Projects Master Cooperative Agreement (MCA) and Appendixes. As a result, the Department requested and received reimbursements from the O&M Projects Program totaling \$10,874,170 for which it was not eligible to receive. We questioned these costs.

On October 1, 2003, the NGB and the Department entered into a five-year MCA for federal reimbursement of operations and maintenance costs for the State's military facilities. The MCA was later extended to include the fiscal year ended September 30, 2009. Section 401 of the MCA states that the maximum funding limitation amount for the NGB for any fiscal year is specified in the Appendixes. Chapter 10-1 of National Guard Regulation 5-1 specifies that the amount stated in the Agreement/Appendix column entitled "Maximum Funding Limitation," which is the allotment applied to the Agreement/Appendix, sets the NGB's maximum liability. In addition, Section 403 of the MCA requires the Department to submit a budget each fiscal year for each activity listed in an Appendix for NGB approval. The budgets shall be approved before the execution of the MCA or funding of the MCA in any fiscal year. The total amount of each budget shall be the maximum amount for which the NGB is obligated to reimburse the Department for performance of the MCA.

To determine the Department's compliance with the maximum funding limitation, we compared the Department's O&M Projects Program expenditures to the approved budgets or final modified budgets for the respective Appendixes. We determined that for several Appendixes, the

Department requested and received reimbursement that exceeded amounts authorized.

The following tables depict the amounts by Appendix where the Department exceeded the maximum funding limitation of the NGB:

Fiscal Year 2008-09

<u>Appendix</u>	<u>Approved Budget</u>	<u>Expenditures</u>	<u>Exceeded Amount</u>
3	\$1,414,500	\$1,635,202	\$220,702
28	No Budget	416,795	416,795
30	No Budget	136,914	136,914
Total	<u>\$1,414,500</u>	<u>\$2,188,911</u>	<u>\$774,411</u>

Fiscal Year 2007-08

<u>Appendix</u>	<u>Approved Budget</u>	<u>Expenditures</u>	<u>Exceeded Amount</u>
3	\$1,627,500	\$ 1,637,205	\$ 9,705
5	1,083,918	1,134,721	50,803
21	No Budget	7,306,175	7,306,175
22	No Budget	167,225	167,225
23	No Budget	2,565,851	2,565,851
Total	<u>\$2,711,418</u>	<u>\$12,811,177</u>	<u>\$10,099,759</u>

We determined:

- (a) The Department did not have a process to confirm that it had approved Appendix budgets in place before charging expenditures and obtaining reimbursement. Our review disclosed:
 - (i) The Department charged expenditures to and obtained reimbursement from Appendixes 28 and 30, in fiscal year 2008-09, without establishing a signed Agreement/Appendix

with the NGB. The Department informed us that it charged expenditures to and obtained reimbursement from these Appendixes because of an audit recommendation from the USPFO's Internal Review Division. On March 23, 2010, the Department obtained a modification related to Appendix 28 that provided an approved budget for fiscal year 2008-09. However, because the Department did not have signed Agreements/Appendixes for Appendixes 28 and 30 prior to incurring expenditures and obtaining reimbursement, we questioned these costs as indicated in the preceding table.

(ii) The Department charged expenditures to and obtained reimbursement from Appendixes 21, 22, and 23, in fiscal year 2007-08, without ensuring that it received an approved budget. The Department informed us that the USPFO GOR is responsible for preparing the Appendix budgets. The Department also informed us that it considers the O&M Projects Program as an "ongoing" program; therefore, the Department continuously charges expenditures and obtains reimbursement even when budgets do not exist. However, because the Department did not have the authorization to charge expenditures to Appendixes 21, 22, and 23, we questioned these costs as indicated in the table above.

(b) The Department did not have internal control to compare expenditures and reimbursement requests to the amounts authorized in Appendix budgets. Such internal control would allow the Department to identify instances of expenditures approaching the authorized amounts so that the Department could take appropriate action, including modification requests to increase the authorized amount.

The Department informed us that it relied on the USPFO GOR to prepare Agreements/Appendixes and initiate modifications when expenditures exceeded budgets. The Department also informed us that it did not compare expenditures to Appendix budgets.

- (2) The Department did not have a process to prevent it from incurring project expenditures that were not authorized on the Facilities Inventory and Support Plan (FISP) specified by National Guard Regulation 5-1. The FISP is an electronic document that contains detailed information on structures, activities, locations, and other pertinent data for all federally/State owned, State operated, and Air National Guard facilities.

Our review of 13 randomly selected O&M projects disclosed that 1 (8%) project was not authorized on the FISP. The Department informed us that sometimes staff are focused on completing the project and do not always prepare the required documentation. As a result, we identified questioned costs of \$274,293.

b. Allowable Costs/Cost Principles

Our review of allowable costs/cost principles disclosed:

- (1) The Department's internal control did not ensure that O&M Projects Program expenditures met the allowable cost principles of Appendix A of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations* [CFR]).

As discussed in the Activities Allowed or Unallowed section (part a.) of this finding, the Department incurred expenditures and requested reimbursement in excess of the maximum funding limitations, incurred project expenditures exceeding project spending limitations without obtaining proper authorizations, and incurred project expenditures that were not authorized on the FISP. We questioned the costs in part a.(1) and part a.(2) of this finding.

Appendix A of OMB Circular A-87 (federal regulation 2 CFR 225) states that costs must be necessary and reasonable for the performance and administration of federal awards. Also, Appendix A, section C(1)(d) of OMB Circular A-87 (federal regulation 2 CFR 225) states that costs must conform to any limitations or exclusions set forth in federal laws, terms and conditions of the federal award, or other governing regulations.

- (2) The Department did not ensure that payroll costs were charged to the appropriate federal programs.

Our review disclosed that 1 (3%) of 33 randomly sampled employees improperly charged 100% of their payroll costs to O&M Projects Program awards. Based on our audit knowledge of the employee's duties and review of the employee's position description, we determined that the employee did not work solely on the O&M Projects Program. When we brought this to the Department's attention, the Department informed us that this employee is charged 100% to the O&M Projects Program because it is the only federal funding source that allows for payroll costs and the employee only performs duties related to federal programs. When we inquired about the percentage of time this employee spent on activities not related to the O&M Projects Program, the Department was unable to provide us with an estimate and it was unable to provide us with information to develop an estimate. As a result, we were not able to determine the amount of questioned costs.

Appendix A, section C(1)(a) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that costs must be necessary and reasonable for the performance and administration of federal awards. Also, Appendix A, section C(1)(d) of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that costs must conform to any limitations or exclusions set forth in federal laws, terms and conditions of the federal award, or other governing regulations. Also, National Guard Regulation 5-1, section 5-6 states that the State Military Department shall take particular care to ensure that it does not charge costs incurred in performance of one cooperative agreement to another, or to both.

c. Period of Availability of Federal Funds

The Department's internal control over the O&M Projects Program did not ensure that it complied with federal laws and regulations and cooperative agreements (CAs) for period of availability of federal funds compliance requirements regarding final accounting and notification of outstanding obligations. As a result, we questioned costs of \$2,449,242.

O&M Project CAs for each Appendix are funded with one year appropriations (federal fiscal year). National Guard Regulation 5-1 and Section 306 of the

October 1, 2003 O&M Project MCA require the Department, within 90 days after the end of the federal fiscal year or upon termination of the CA, whichever is earlier, to deliver to the USPFO, as a representative of the NGB, a final accounting of all funding and disbursements under the agreement for the federal fiscal year. The Department is also required to provide to the USPFO a detailed listing of uncleared obligations and a projected timetable for their liquidation that will remain 90 days after the close of the fiscal year. Costs not disclosed by the Department to the USPFO shall not be eligible for federal reimbursement.

We determined that the Department did not submit a final accounting or a request for extension for 13 (100%) of the 13 Appendixes in fiscal year 2007-08 within 90 days of the end of the federal fiscal year. The final accounting or extension requests were submitted 177 to 476 days late, averaging 261 days late. We also identified expenditures incurred during our audit period for CAs of fiscal year 2003-04 through fiscal year 2006-07 for which the Department could not provide documentation of final accounting submission or approval of an extension granted by USPFO. As a result, the Department did not properly close out its CAs and was not eligible to receive \$2,449,242 in federal reimbursement. Therefore, we questioned these costs.

In June 2009, the Department implemented corrective action and our test results indicated that the Department established a process to submit final accountings and/or extensions for appendixes established during our audit period.

d. Procurement and Suspension and Debarment

The Department's internal control did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment. As a result, we identified known questioned costs totaling \$91,071, of which \$11,504 is questioned in the Period of Availability of Federal Funds section (part c.) of this finding. Our review disclosed:

- (1) The Department did not obtain State Administrative Board approval and did not competitively bid projects. Our review of 4 sampled environmental projects disclosed 3 related to memorandums of understanding (MOUs) administered by the Department's Environmental Unit. All 3 of the MOUs

were in excess of \$25,000, and our 3 sampled MOU expenditures totaled \$91,071.

National Guard Regulation 5-1 and Section 901 of the October 1, 2003 MCA require the Department to comply with federal regulation 32 *CFR* 33 for procurements. Federal regulation 32 *CFR* 33 requires the Department to follow the same policies and procedures it uses for procurements from its non-federal funds (State procurement policies and procedures). State procurement policy requires contracts in excess of \$25,000 to be approved by the State Administrative Board and to be competitively bid. The Department's purchasing procedures, implemented April 2007, require purchases to be processed through its Office of Purchasing. However, prior to April 2007, some MOUs in excess of \$25,000 were not processed by the Office of Purchasing, but rather by the Environmental Unit and were not submitted to the State Administrative Board for approval and were not competitively bid. The 3 MOUs were processed prior to April 2007, but the Department was still making payments against the MOUs during our audit period.

We performed additional audit procedures and determined that the MOUs administered by the Department's Environmental Unit represented \$841,602 of the O&M Projects Program expenditures for the two-year period ended September 30, 2009.

- (2) The Department's internal control did not ensure that it documented that vendors were not on the federal Excluded Parties List System. While the Department may have an informal process to verify the vendor was not on the federal Excluded Parties List System prior to entering into any type of agreement, the process was not documented. Thus, we could not verify that the Department's internal control provided any assurance that vendors were not suspended or debarred prior to the Department entering into the related contract.

We reviewed the federal Excluded Parties List System and verified that none of the vendors in our sample of O&M Projects Program expenditures were suspended or debarred during the respective fiscal years. As a result, we did not report any questioned costs for this item.

However, without a formal process to verify the status of vendors, a risk exists that other, or future, vendors could be suspended or debarred.

National Guard Regulation 5-1 specifies that recipients shall not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order No. 12549.

RECOMMENDATION

We recommend that the Department strengthen its internal control over the O&M Projects Program to ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, and procurement and suspension and debarment.

FINDING (5111008)

8. National Guard Civilian Youth Opportunities, CFDA 12.404

U.S. Department of Defense	CFDA 12.404: National Guard Civilian Youth Opportunities
Award Number: ChalleNGe DAHA20-07-2-4002/4003 DAHA20-99-2-4002/4003 W912JB-09-2-4001 W912JB-09-2-4003 Starbase: DAHA20-08-2-4001 W912JB-09~2-4002	Award Period: 07/09/2007 - 12/31/2007 01/01/2008 - 12/31/2008 01/01/2009 - 12/31/2009 10/01/2008 - 09/30/2009 10/01/2007 - 09/30/2008 10/01/2008 - 09/30/2009
	Known Questioned Costs: Undeterminable

The Department did not comply with National Guard Civilian Youth Opportunities (NGCYO) Program federal laws and regulations and cooperative agreements concerning eligibility. Also, the Department's internal control over the NGCYO Program did not ensure its compliance with federal laws and regulations and cooperative agreements regarding reporting and subrecipient* monitoring. Our review disclosed material weaknesses in internal control over reporting requirements. Our review also disclosed material noncompliance with federal

* See glossary at end of report for definition.

regulations and cooperative agreements regarding eligibility and reporting. As a result, we issued a qualified opinion on compliance with federal regulations and cooperative agreements for the NGCYO Program.

Noncompliance with federal program requirements could result in sanctions, disallowances, and/or future reductions in NGCYO Program awards.

The NGCYO Program in Michigan comprises two separate subprograms: ChalleNGe and Starbase. Federal expenditures for the NGCYO Program totaled \$8.1 million for the two-year period ended September 30, 2009, of which the Department expended \$4.7 million for the ChalleNGe Program and distributed \$3.4 million to the Starbase Academy as a subrecipient.

Our exceptions related to the NGCYO Program, by compliance area, are as follows:

a. Eligibility

The Department did not comply with federal laws and regulations and cooperative agreements concerning cadet eligibility for the ChalleNGe Program.

Our review disclosed that 8 (31%) of 26 cadets sampled indicated that they were enrolled at a secondary school at the time that they applied for enrollment in the ChalleNGe Program. The Department informed us that when applicants are interviewed, ChalleNGe Program staff encourage applicants who are still enrolled in secondary schools to stay in school because they are less likely to make decisions such as using drugs and committing crimes that would prevent their acceptance to the Program. However, this practice conflicts with ChalleNGe Program eligibility requirements.

Master Youth Programs Cooperative Agreement (MYPCA) Section 4.10.2 states that the selection of participants for the program shall be from applicants who are a dropout from secondary school. Also, Title 32, section 509(e) of the *United States Code* states that "a school dropout from secondary school shall be eligible to participate in the [National Guard ChalleNGe] Program." Section E2.1.19 of the Department of Defense Instruction 1025.8 defines a school dropout as a youth who is no longer attending any school and who has not received a secondary school diploma or

certificate from a program of equivalency for such diploma. The preceding requirements do not indicate that participants are eligible if they drop out from secondary school to attend the ChalleNGe Program.

We could not determine the ChalleNGe Program costs directly associated with the ineligible cadets as the Department is not reimbursed on a per pupil basis.

b. Reporting

The Department's internal control did not ensure compliance with the reporting requirements of the NGCYO Program.

Our review disclosed that the Department submitted 15 (27%) of 55 monthly reimbursement requests late during our audit period. The Department submitted the reimbursement requests 1 to 37 days late, averaging 13.7 day late. In addition, the Department did not submit separate monthly reimbursement requests for November 2007 and January 2009. Instead, the Department included these months' expenditures within its December 2007 and February 2009 reimbursement requests.

The MYPCA requires the Department to request periodic reimbursement by submitting a certified statement, no less than once a month, itemizing the amount of funds expended during the preceding month.

We reported a similar condition in our prior Single Audit. The Department informed us that it updated its desk procedures in October 2008 to ensure compliance with reporting requirements. However, the Department did not implement this procedure during our audit period.

c. Subrecipient Monitoring

The Department's internal control did not ensure compliance with OMB Circular A-133 requirements regarding subrecipient monitoring of the Starbase Program.

We determined that the Department did not have policies or procedures regarding the documentation of its subrecipient monitoring for the Starbase Program. Our review disclosed that the Department did not document its review of the Starbase Program's Single Audit reports. Also, our review noted

that the Department did not document its on-site visits to and communications with the Starbase Program. Documentation of monitoring efforts is critical to show compliance with Circular A-133 compliance requirements regarding the Department's responsibilities for subrecipient monitoring.

In addition, during our review of the Starbase Program's Single Audit report, we noted a \$14,394 difference between the expenditures reported on the Starbase Academy's schedule of expenditures of federal awards (SEFA) for the fiscal year ended September 30, 2008 and the amount reported on the Department's SEFA as passed through to the Starbase Program. When we brought this to the attention of the Department, it was not aware of this difference, although it informed us that it had reviewed the applicable Starbase Program's Single Audit report. Further, we informed the Department that it should implement policies and procedures regarding subrecipient monitoring during our prior Single Audit.

OMB Circular A-133, Section 400(d) requires the Department to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, the provisions of contracts or grant agreements and that performance goals are achieved.

RECOMMENDATIONS

We recommend that the Department comply with NGCYO Program federal laws and regulations and cooperative agreements concerning eligibility.

We also recommend that the Department implement effective internal control over the NGCYO Program to ensure its compliance with federal laws and regulations and cooperative agreements regarding subrecipient monitoring.

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPLEMENT EFFECTIVE INTERNAL CONTROL TO ENSURE THAT THE NGCYO PROGRAM COMPLIES WITH COOPERATIVE AGREEMENTS REGARDING REPORTING.

FINDING (5111009)

9. Veterans State Domiciliary Care and Veterans State Nursing Home Care, CFDA 64.014 and CFDA 64.015

U.S. Department of Defense	CFDA 64.014: Veterans State Domiciliary Care CFDA 64.015: Veterans State Nursing Home Care
Award Number: Not applicable	Award Period: Not applicable
	Known Questioned Costs: \$0

The Department's internal control over the Veterans State Domiciliary Care and Veterans State Nursing Home Care Programs did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the Veterans State Domiciliary Care and Veterans State Nursing Home Care Programs' awards.

Federal expenditures for the Veterans State Domiciliary Care and Veterans State Nursing Home Care Programs totaled \$2.5 million and \$39.4 million, respectively, for the two-year period ended September 30, 2009.

For fiscal years 2008-09 and 2007-08, the Department was reimbursed monthly using the per diem rates.

The Veterans State Domiciliary Care and Veterans State Nursing Home Care Programs are operated by the Department's two veteran homes: Grand Rapids Home for Veterans and D.J. Jacobetti Home for Veterans. Veteran home members are assigned to either domiciliary care or nursing home care services upon admission and as the members' health care needs change. The domiciliary care rates were \$34.40 and \$33.01 for fiscal years 2008-09 and 2007-08, respectively. The nursing home care rate was \$74.42 and \$71.42 for fiscal years 2008-09 and 2007-08, respectively.

Each veteran home has its own policies and procedures for assessing applicants and members to determine the proper level of care and to support the level of federal reimbursement received. The veteran homes document their assessments on a level of care form. At the Grand Rapids Home for Veterans, the members are assessed by the admissions team consisting of the nursing director, a physician, and a social worker. At the D.J. Jacobetti Home for Veterans, the members are

assessed by the admissions screening staff consisting of the director of nursing, the admissions coordinator, a social worker, the medical director, and the administrator. Both homes informed us that each person on the admissions team or admissions screening staff is required to sign the level of care form. Our review disclosed:

- a. The Department's internal control did not ensure that it obtained the required signatures on the level of care form for 6 (15%) of 40 member files reviewed. We noted varying instances of missing signatures from the administrator, the director of nursing, a social worker, and a physician. When we brought this to the Department's attention, the Department informed us that members may be admitted for emergency purposes and/or the required persons may not be available to evaluate the incoming member and sign the level of care form prior to admission. However, the Department did not document on the level of care form the reason for the missing signatures or if the member was admitted due to an emergency situation or if the required person was not available to evaluate the incoming member. Also, the Department did not obtain the required reviews and signatures subsequent to these members' admission to the homes. We determined that the Department did not have a formal policy or procedure in place that assigned responsibility for ensuring that the required reviews were performed and signatures were obtained in all circumstances.
- b. The Department's internal control to ensure that it maintained the required form to document the level of care was not always effective. The Department's policies assigned responsibility to an individual to ensure that the level of care form was maintained in the member file. However, we identified that the Department did not maintain the level of care form in 1 (3%) of 40 member files reviewed. The Department included this member in its nursing home care program. Without a level of care determination form, we could not determine that the member was placed in the appropriate program and that the Department was reimbursed at the proper amount.

RECOMMENDATION

We recommend that the Department strengthen its internal control over the Veterans State Domiciliary Care and Veterans State Nursing Home Care Programs to help ensure its compliance with federal laws and regulations regarding activities allowed or unallowed.

OTHER SCHEDULES

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Summary Schedule of Prior Audit Findings
As of June 28, 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: 5110803
Finding Title: Internal Control Over Accounting Transaction Processing

Finding: The Department of Military and Veterans Affairs did not always separate the initiation and release of accounting transaction functions and did not have compensating controls for the lack of separation of duties.

Agency Comments: Corrective action has been taken and this matter is fully resolved. The Department has developed a control process to periodically search and identify transactions that are initiated and released by the same individual.

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 5110804
Finding Title: Internal Control Over Food Purchases and Receipt

Finding: The Department did not have sufficient internal control over the purchase and receipt of food items at its Grand Rapids Home for Veterans (GRHV).

Agency Comments: Corrective action has been taken and this matter is fully resolved. GRHV enhanced its procedures to ensure that all necessary documentation relative to the purchase, receipt, and authorization of food items is in place.

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 5110805
Finding Title: Internal Control Over Records Retention

Finding: The Department did not have internal control to ensure that it maintained and safeguarded its hard copy accounting records.

Agency Comments: Corrective action has been taken and this matter is fully resolved. GRHV developed and implemented an internal control policy and procedure to ensure that the hard copy accounting records are stored and destroyed in compliance with its State of Michigan records retention schedule.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 5110801
Finding Title: Federal Reimbursements

Finding: The Department needs to improve its process for requesting federal reimbursement to help ensure timely collection of federal funds. Also, the Department should request all federal funds available to pay for program operations eligible for federal reimbursement.

Agency Comments: Parts a. and b. The Department has made great efforts to improve its process for requesting federal reimbursement to help ensure timely collection of federal funds. The Department processes between 70 and 80 requests for reimbursement per month. Reimbursement requests for sustainment, restoration, and maintenance projects are made as the obligation is incurred and the Department processes salary and wage advance reimbursement requests for the Army National Guard appendixes. As a result, the negative cash position was significantly reduced for the audit period (October 1, 2008 through September 30, 2009).

The Department plans to implement requests for advance payment for the air base appendixes in December 30, 2010.

Part c. The Department did take corrective action to request federal reimbursement of available funds for operations related to the National Guard Civilian Youth Opportunities Program, and this matter is fully resolved. The Department continues to monitor the National Guard Civilian Youth Opportunities Program budgets to ensure that the Department collects all federal funds that are available for program operations.

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

Finding Number: 5110802

Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: The Department's internal control over financial reporting did not ensure that it prepared its SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies.

Agency Comments: The Department has taken steps to ensure that all federal awards are properly identified and accounted for on the SEFA. The Department reviewed procedures to determine that amounts reported on the SEFA are accurate and complete. The Department has received assurances from the United States Property Fiscal Officer for Michigan and the federal program managers that they will work with the Department to provide the necessary financial information necessary for proper preparation of the SEFA. The Department will continue to implement corrective actions to improve the process for preparing the SEFA.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2005 through September 30, 2007
Finding Number: 5110806
Finding Title: National Guard Civilian Youth Opportunities, *CFDA* 12.404

Finding: The Department's internal control did not ensure that the National Guard Civilian Youth Opportunities Program complied with federal laws and regulations regarding allowable costs/cost principles and reporting.

Agency Comments: Part a. The Department obtained semiannual certifications for the audit period. All employees now enter their time by way of the State's Data Collection and Distribution System (DCDS).

Part b. Processes are in place to ensure compliance with reporting requirements. The Department's desk operating procedures were updated in October 2008 but were not fully implemented during the audit period (October 1, 2007 through September 30, 2009). Further updates to the Department's desk operating procedures are being made to reflect the specific instances where there are exceptions to the monthly reimbursement process. The Department has placed first priority status on the preparation of National Guard Civilian Youth Opportunities Program monthly reimbursements and a monthly review of billing reports will be implemented to ensure compliance.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Corrective Action Plan

As of June 28, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 5111001

Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Department of Military and Veterans Affairs concurs with the recommendation. The Department relies solely on the cooperation of the federal program manager and the U.S. Property Fiscal Office (USPFO) to obtain in-kind assistance financial information. National Guard Regulation 5-1, Chapter 3-1e states that it is the USPFO's responsibility to supply all year-end closeout information to the State. However, there are no specific provisions of the cooperative agreement for actions that may be taken by the State to enforce compliance. The Department followed the same procedures that were executed in order to receive in-kind assistance from the other appendixes. This process worked for all appendixes that had in-kind assistance except for Appendixes 1 and 7 in fiscal year 2008-09. The Department will continue to work with its federal program managers and the USPFO to effectively resolve this issue of timely submission related to in-kind assistance and closeout modifications.

Planned Corrective Action: The Department will follow its existing procedures for obtaining in-kind assistance data as well as work with the USPFO and federal program managers to establish joint procedures that ensure the SEFA is prepared in accordance with U.S. Office of Management and Budget (OMB) Circular A-133

requirements. The Department will also develop a standard letter format for USPFO to confirm in-kind assistance expenditures.

Anticipated Completion Date: December 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111002

Finding Title: Federal Reimbursements

Management Views: The Department concurs with the recommendation. The Department processes between 70 and 80 claims for reimbursement each month. The Department has made an earnest and conscientious effort to improve its processes for requesting federal reimbursements.

As a result of receiving advance payments, the Department has substantially reduced the negative cash balance from the prior audit.

Planned Corrective Action: The Department will engage USPFO as well as its federal program managers in discussions about how the Department can further minimize the time elapsing between the transfer of federal funds and the disbursement of funds by the State.

Anticipated Completion Date: December 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111003

Finding Title: Revenue Classification

Management Views: The Department concurs with the recommendation.

Planned Corrective Action: The Department is working with accounting staff and the Office of Financial Management to correct revenue objects used for the Challenge Battle Creek School Aid Fund, Civil Service Assessment, and Mackinac Bridge Authority Labor Day Bridgewalk services.

The Challenge Battle Creek School Aid Fund is already correctly posted as local revenue/school districts for fiscal year 2009-10.

The Civil Service Assessment for fiscal year 2009-10 has already been corrected to reduce revenue to the dominant revenue object in the restricted General Fund/general purpose funds that were charged the assessment for payroll in fiscal year 2009-10 based on fiscal year 2008-09 amounts.

The Bridgewalk will be correctly categorized as a service revenue for fiscal year 2009-10.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111004

Finding Title: Internal Control Over Procurement

Management Views: The Department concurs with the recommendation. The Department is following State procurement policies and procedures that require contracts in excess of \$25,000 to be approved by the State Administrative Board and competitively bid.

Planned Corrective Action: With the rollout and implementation of the State's on-line bidding system (www.Bid4Michigan.com) and the requirement effective December 1, 2009 for all

bids to be formally placed on this Web site, any vendors who are formally debarred will not be able to submit bids through this Web site.

Anticipated Completion Date: January 2011

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 5111005

Finding Title: Military Construction, National Guard, *CFDA* 12.400

Management Views: The Department concurs with the recommendation. The Constructions and Facilities Management Office has implemented corrective action to ensure a process is in place to ensure that the NGB Project Inspection Report (Form 593-R) is accomplished and distributed as required. Timely completion and distribution of these forms will allow final accounting of Military Construction (MILCON) projects.

The Department believes that the \$969,020 reimbursed from the MILCON projects was for expenditures that were the result of valid obligations. The expenditures were approved by the federal program manager, certified as allowable, and reimbursed by the USPFO.

Planned Corrective Action: The Department will develop formal procedures to ensure timely delivery to the USPFO of a full and final accounting for completed projects. The Department will work with federal program managers and the USPFO to develop joint operating procedures to ensure that NGB Form 593-R is properly completed and signed timely.

Anticipated Completion Date: December 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111006

Finding Title: ARRA - National Guard Military Operations and Maintenance (O&M) Projects, *CFDA* 12.401

Management Views: The Department concurs with the recommendation regarding activities allowed or unallowed. The Department will ensure that the contractor payment requests have the program manager's approval before payments are made. The Department concurs with the observations noted concerning the Davis-Bacon Act for the two contractual agreements reviewed. The Davis-Bacon Act language was included in subsequent contracts. The contractors are certifying and submitting to the Department their weekly payroll data using the U.S. Department of Labor, Wage and Hour Division form OMB No. 1215-0149. The Department concurs with the observation that it did not include Buy American language in First Contracting or Byce & Associates contracts. However, Buy American language has been included in subsequent contracts.

Planned Corrective Action: The Department will establish internal control procedures to monitor compliance with American Recovery and Reinvestment Act of 2009 (ARRA) requirements.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111007

Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, *CFDA* 12.401

Management Views:

The Department concurs with the recommendation.

Maximum Funding Limitations - The Department disagrees that it requested and received reimbursements from the O&M Projects Program which it was not eligible to receive. The expenditures incurred were the result of valid obligations approved by the federal program manager authorized to incur the obligation. All of the expenditures were reviewed and approved by the federal program manager as allowable, billed, and reimbursed by the USPFO. The Department, during the audit period, was not receiving the appendixes or modifications on a timely basis from the USPFO. Additionally, the Department was not receiving the cooperative agreement modifications that indicated approved increases and decreases. There are federal requirements that must be in place in order for the State to receive reimbursement for funds expended. Approval of those reimbursement requests recognizes that the documentation and a process was in place at the USPFO and the air bases on the federal side to validate. If funding was not available through the cooperative agreement, the State would not have been reimbursed.

Facilities Inventory and Support Plan (FISP) - The Department disagrees with Finding 5111007, part a.(2). The Office of the Auditor General asserts the finding as an improper deductive generalization that a facility must first be on the FISP in order to receive funding. The project funds were expensed to create through new construction a range tower facility for a bona fide pre-existing range that was on the FISP for over 50 years. Once the new tower facility was completely constructed, useable, and beneficial occupancy occurred, it was eligible for a request to be placed on the FISP. The questioned costs were

intended and applied to establish a new facility. A diligent effort by office staff has immediately requested this new tower facility be documented on the FISP.

Planned Corrective Action:

The Department is working with the USPFO Grants Officer Representative (GOR) to establish joint procedures for the initial funding, amendment, and closeout modification process. In fiscal year 2008-09, the Department began its corrective actions and together with the USPFO it is working backwards to closeout prior year agreements. The Office of Financial Services and the GOR are keeping spreadsheets detailing the status of each appendix for each of the prior years. Several agreements have already been closed out. Appendixes that required extensions were requested and approved.

In fiscal year 2009-10, the Office of Financial Services began the process of verifying that each appendix received its initial funding. The Department already had in place a method to monitor the amount spent for each appendix. Receiving the funding modifications from the USPFO (whose job is to provide the modification documentation) will facilitate the verification that expenditures do not exceed the maximum funding limitations. If the maximum funding limitation is exceeded, the program manager will be notified.

For the single employee identified as being improperly charged to O&M Projects, the Department will implement a process to certify this federally funded employee on duties associated with the position. The certification will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Anticipated Completion Date: December 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111008

Finding Title: National Guard Civilian Youth Opportunities,
CFDA 12.404

Management Views: The Department concurs with the recommendation.

Eligibility

The Michigan Youth Challenge Academy response to this audit finding is that applications are not accepted until after interviews are complete and orientations have been attended. At the time the Department accepts them, they are all dropouts. The Department does not encourage dropping out to attend ChalleNGe, but many who know they cannot graduate with their graduating class and those who are far behind in their accumulated high school credits and know they will become dropouts often choose to do so at that time. This has been a national issue and cannot be resolved by the states, but at the federal level by the National Guard Civilian Youth Opportunities Program.

Planned Corrective Action: The Department will establish a formal procedure to document its annual on-site visits and its monthly review of Starbase request for reimbursement. The Department will also modify and document its monitoring process to ensure review of the required audit reports. Discrepancies will be investigated and communication with the subrecipient will be established to reconcile the discrepancy.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

Finding Number: 5111009

Finding Title: Veterans State Domiciliary Care and Veterans State Nursing Home Care, *CFDA* 64.014 and *CFDA* 64.015

Management Views: The Department agrees with the audit finding.

In response to the first portion of the finding, the Grand Rapids Home for Veterans (GRHV) has revised existing administrative policy 11-03-A1. GRHV has developed a monitor to ensure compliance.

In response to the second portion of the finding, in accordance with administrative policy 08-06-M1, a copy of this form is retained in each member's medical record under the "History and Physical" section. GRHV has developed a monitor to ensure compliance.

In response to the first portion of the finding, the D.J. Jacobetti Home for Veterans (DJJHV) does not **mandate** that all five people sign off on the Admission Routing Form Recommendation sheet prior to admission. DJJHV policy 03-05, Admissions, states that the director of nursing, admissions coordinator, social worker, medical director, and administrator will review all applications. The minimum requirement is that a physician and the director of nursing (or designee) pre-approve an admission. Timely admissions are essential to generating operating revenue, and the Department often admits veterans within 24 hours of receiving their applications. It is preferred that the remainder of the admissions team review the application, but is not always practical. Policy 03-05 will be revised to clarify the minimum approval required for admission and documentation of this approval.

In response to the second portion of the finding, the DJJHV maintains the Admission Routing Form Recommendation sheet in the administrative file.

Planned Corrective Action: GRHV has revised existing administrative policy 11-03-A1 as well as developed a monitor to ensure compliance.

DJJVH will revise policy 03-05 to clarify the minimum approval required for admission and documentation of this approval.

Anticipated Completion Date: September 30, 2010

Responsible Individual: Joel A. Wortley, Deputy Director, State Operations

GLOSSARY

Glossary of Acronyms and Terms

ARRA	American Recovery and Reinvestment Act of 2009.
CA	cooperative agreement.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
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.
CRTC	Combat Readiness Training Center.
DJJHV	D.J. Jacobetti Home for Veterans.
DTMB	Department of Technology, Management & Budget.
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.

FISP	Facilities Inventory and Support Plan.
Form 593R	NGB Project Inspection Report.
GAAP	accounting principles generally accepted in the United States of America.
GOR	Grants Officer Representative.
GRHV	Grand Rapids Home for Veterans.
in-kind assistance	The value of a noncash contribution by a nonfederal third party without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.
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.

MCA Master Cooperative Agreement.

MCCA Military Construction Cooperative Agreement.

MILCON Military Construction.

MOU	memorandum of understanding.
MYPCA	Master Youth Programs Cooperative Agreement.
NGB	National Guard Bureau.
NGCYO	National Guard Civilian Youth Opportunities.
O&M	National Guard Military Operations and Maintenance.
OMB	U.S. Office of Management and Budget.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <ol style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the

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

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

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.

SEFA

schedule of expenditures of federal awards.

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.

subrecipient

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

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the 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.

USPFO

U.S. Property and Fiscal Office.

