



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:
 950-0150-11

State-Funded Judicial Operations

October 1, 2008 through September 30, 2010

Released:
 June 2011

A single audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the State-funded judicial operations' financial schedules.

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Internal Control Over Financial Reporting

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

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

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

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$133,296 and known and likely questioned costs totaling \$199,484. The State-funded judicial operations expended a total of \$8.9 million in federal awards, including \$577,523 of ARRA funding, during the two-year period ended September 30, 2010. 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 material weaknesses in internal control over federal program compliance (Findings 1 through 5). We also identified significant deficiencies in internal control over federal program compliance (Findings 2 and 4).

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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 1 through 5).

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	Unqualified
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	Unqualified
93.563	Child Support Enforcement	Qualified
93.586	State Court Improvement Program	Qualified
93.658	Foster Care - Title IV-E	Qualified

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 15, 2011

The Honorable Robert P. Young, Jr.
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Young:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 2008 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial schedules, and the State-funded judicial operations' financial schedules and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements that could have a direct and material effect on 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 State-funded judicial operations' summary schedule of prior audit findings, the corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section III of the schedule of findings and questioned costs. The Judiciary's preliminary responses are contained in the corrective action plan.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

The Honorable Robert P. Young, Jr.
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Young:

We have audited the accompanying financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents. These financial schedules are the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the State-funded judicial operations or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2011 on our consideration of the State-funded judicial operations' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the State-funded judicial operations' financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

June 6, 2011

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	2010	2009
REVENUES		
Miscellaneous		
Court-generated revenues:		
Court of Appeals filing fees	\$ 1,457,049	\$ 1,514,699
Community dispute resolution fees	2,026,362	2,128,377
Court Equity Fund (Note 3.a.)	44,275,375	43,679,556
Other court-generated revenues (Note 3.b.)	22,927,663	25,561,526
Other	1,359,940	1,281,130
Total miscellaneous	\$ 72,046,389	\$ 74,165,288
From federal agencies	3,814,716	4,340,239
From services	5,703,261	5,720,956
From licenses and permits	3,144,467	3,117,804
Total revenues	\$ 84,708,833	\$ 87,344,287

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

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2010</u>	<u>2009</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 153,132,800	\$ 156,472,000
Balances carried forward	17,877,516	15,311,573
Restricted financing sources	<u>84,386,991</u>	<u>86,851,293</u>
 Total	 <u>\$ 255,397,307</u>	 <u>\$ 258,634,866</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures	<u>\$ 236,024,507</u>	<u>\$ 240,743,348</u>
Balances carried forward:		
Encumbrances	\$ 1,165,985	\$ 288,991
Restricted revenues - authorized	235,749	240,355
Restricted revenues - not authorized or used	<u>17,967,765</u>	<u>17,348,170</u>
Total balances carried forward	<u>\$ 19,369,499</u>	<u>\$ 17,877,516</u>
Balances lapsed:		
Current year appropriations	\$ 3,263	\$ 7,439
Carry-forward of prior years' appropriations	<u>38</u>	<u>6,563</u>
Total balances lapsed	<u>\$ 3,301</u>	<u>\$ 14,002</u>
 Total	 <u>\$ 255,397,307</u>	 <u>\$ 258,634,866</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the State-funded judicial operations for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of the State-funded judicial operations are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

b. Measurement Focus, Basis of Accounting, and Presentation

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

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial

presentation of either the State-funded judicial operations or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. 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 unencumbered portion of restricted revenues - not authorized or used.
- 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.
- d. 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.

- e. Restricted revenues - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.

- f. 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. Carry-forwards of this type were revenues from court fees that are deposited into the Court Fee Fund (\$1.23 million and \$1.94 million for fiscal years 2009-10 and 2008-09, respectively); juror compensation reimbursement fees that are deposited into the Juror Compensation Reimbursement Fund (\$3.87 million and \$4.04 million for fiscal years 2009-10 and 2008-09, respectively); court fees that are deposited into the Judicial Technology Improvement Fund (\$7.28 million and \$6.45 million for fiscal years 2009-10 and 2008-09, respectively); court assessments and costs directed by law to the Drug Treatment Court Fund (\$0.60 million and \$0.53 million for fiscal years 2009-10 and 2008-09, respectively); community dispute resolution fees (\$1.74 million and \$1.87 million for fiscal years 2009-10 and 2008-09, respectively); and direct trial court automation support user fees (\$3.26 million and \$2.51 million for fiscal years 2009-10 and 2008-09, respectively). The restricted revenues - not authorized or used represent the unexpended and encumbered balance of these revenues.

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

Note 3 Court-Generated Revenues

a. Court Equity Fund

The Court Equity Fund was established pursuant to Section 151b, Act 374, P.A. 1996. The Court Equity Fund receives revenues from the State Court Fund and the Court Fee Fund and accumulates proceeds from the collection of certain court costs assessed by the district courts.

The revenues collected in the Court Equity Fund (\$44.28 million and \$43.68 million for fiscal years 2009-10 and 2008-09, respectively) are distributed to the counties based on the counties' proportion of caseload and the number of circuit, district, and probate judges for each county.

b. Other Court-Generated Revenues

Other court-generated revenues represent revenues received from certain court fees, costs, and assessments; driver's license clearance fees; and jury demand fees. These revenues are accumulated in the following General Fund subfunds as follows:

- (1) State Court Fund: The State Court Fund was established pursuant to Section 151a, Act 189, P.A. 1993. The State Court Fund accumulates proceeds from the collection of revenues from certain court fees. The revenues collected, net of distributions to the Court Equity Fund (\$7.45 million and \$7.51 million for fiscal years 2009-10 and 2008-09, respectively), are designated for indigent civil legal assistance and the State Court Administrative Office for oversight, data collection, and court management assistance.
- (2) Court Fee Fund: The Court Fee Fund was established pursuant to Section 217, Act 234, P.A. 1992. The Court Fee Fund receives revenues from court fees collected in excess of amounts needed to fund the Michigan Judges' Retirement System. The revenues collected, net of distributions to the reserve for health benefits and to the Court Equity Fund (\$6.37 million and \$7.15 million for fiscal years 2009-10 and 2008-09, respectively), are designated for trial court operations.
- (3) Juror Compensation Reimbursement Fund: The Juror Compensation Reimbursement Fund was established pursuant to Section 151d, Act 740, P.A. 2002. The Juror Compensation Reimbursement Fund accumulates proceeds from the collection of driver's license clearance fees and jury demand fees. The revenues collected, net of a transfer of \$1.35 million to the Court Equity Fund for fiscal year 2009-10 in accordance with Section 151d, Act 151, P.A. 2009

(\$2.89 million and \$4.39 million for fiscal years 2009-10 and 2008-09, respectively), are provided to the courts to fund the increase in the juror compensation rates that took effect October 1, 2003.

- (4) Judicial Technology Improvement Fund: The Judicial Technology Improvement Fund was established pursuant to Section 175, Act 78, P.A. 2003, effective October 1, 2003. The Judicial Technology Improvement Fund accumulates proceeds from the collection of revenues from certain court fees. The revenues collected (\$4.33 million and \$4.55 million for fiscal years 2009-10 and 2008-09, respectively) are used for the development and ongoing support of a Statewide judicial information system and to pursue technology innovations at local trial courts.
- (5) Justice System Fund: The Justice System Fund was established pursuant to Section 181, Act 97, P.A. 2003, effective October 1, 2003. The Justice System Fund accumulates proceeds from the collection of revenues from certain court costs and assessments. The revenues collected, net of distributions to a variety of funds as identified in Section 600.181 of the *Michigan Compiled Laws* (\$0.50 million and \$0.51 million for fiscal years 2009-10 and 2008-09, respectively), are designated for the State Court Administrative Office for management assistance and audit of trial court collections.
- (6) Drug Treatment Court Fund: The Drug Treatment Court Fund was established pursuant to Section 185, Act 72, P.A. 2003, effective October 1, 2003. The Drug Treatment Court Fund accumulates proceeds from the collection of revenues from certain court costs and assessments. The revenues collected (\$1.39 million and \$1.45 million for fiscal years 2009-10 and 2008-09, respectively) are used for the administration of, and the awarding of grants for, drug treatment court programs throughout the State.

SUPPLEMENTAL FINANCIAL SCHEDULE

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Justice</u>					
Direct Programs:					
Drug Court Discretionary Grant Program	16.585		\$ 94,604	\$	\$ 94,604
Capital Case Litigation	16.746				0
Edward Byrne Memorial Competitive Grant Program	16.751				0
Total Direct Programs			\$ 94,604	\$ 0	\$ 94,604
Pass-Through Programs:					
Michigan Department of Community Health					
Edward Byrne Memorial Justice Assistance Grant Program	(3) 16.738	20091542	\$ 48,523	\$ 1,540,951	\$ 1,589,474
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	(3) 16.803	20093969	\$ 20,152	\$ 0	\$ 20,152
Michigan Department of State Police					
National Criminal History Improvement Program	16.554	2007-RU-BX-K026	\$ 28,243	\$ 0	\$ 28,243
Edward Byrne Memorial Justice Assistance Grant Program	(3) 16.738	20091542	\$	\$	\$ 0
Edward Byrne Memorial Justice Assistance Grant Program	(3) 16.738	201072157			0
Total Edward Byrne Memorial Justice Assistance Grant Program			\$ 0	\$ 0	\$ 0
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories					
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	(3) 16.803	20100694	\$	\$	\$ 0
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	(3) 16.803	20093969			0
Total ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories			\$ 0	\$ 0	\$ 0
Total Pass-Through Programs			\$ 96,918	\$ 1,540,951	\$ 1,637,869
Total U.S. Department of Justice			\$ 191,522	\$ 1,540,951	\$ 1,732,473
<u>U.S. Department of Transportation</u>					
Pass-Through Program:					
Michigan Department of State Police					
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-09-21	\$ 29,188	\$	\$ 29,188
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-08-13	21,165	371,187	392,352
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-10-12			0
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-10-14			0
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-10-11			0
Total Alcohol Impaired Driving Countermeasures Incentive Grants I			\$ 50,353	\$ 371,187	\$ 421,540
Total U.S. Department of Transportation			\$ 50,353	\$ 371,187	\$ 421,540

This schedule continued on next page.

<u>For the Fiscal Year Ended September 30, 2010</u>			Total Expended and Distributed
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>for the Two-Year Period</u>
\$	\$	\$ 0	\$ 94,604
48,728		48,728	48,728
65,884		65,884	65,884
<u>\$ 114,612</u>	<u>\$ 0</u>	<u>\$ 114,612</u>	<u>\$ 209,216</u>
\$ 0	\$ 0	\$ 0	\$ 1,589,474
\$ 0	\$ 0	\$ 0	\$ 20,152
\$ 0	\$ 0	\$ 0	\$ 28,243
\$	\$ 155,757	\$ 155,757	\$ 155,757
8,510	1,428,005	1,436,515	1,436,515
<u>\$ 8,510</u>	<u>\$ 1,583,762</u>	<u>\$ 1,592,272</u>	<u>\$ 1,592,272</u>
\$ 36,557	\$ 390,645	\$ 427,202	\$ 427,202
130,169		130,169	130,169
\$ 166,726	\$ 390,645	\$ 557,371	\$ 557,371
<u>\$ 175,236</u>	<u>\$ 1,974,407</u>	<u>\$ 2,149,643</u>	<u>\$ 3,787,512</u>
<u>\$ 289,848</u>	<u>\$ 1,974,407</u>	<u>\$ 2,264,255</u>	<u>\$ 3,996,728</u>
\$	\$	\$ 0	\$ 29,188
		0	392,352
	356,428	356,428	356,428
69,686		69,686	69,686
12,368		12,368	12,368
<u>\$ 82,054</u>	<u>\$ 356,428</u>	<u>\$ 438,482</u>	<u>\$ 860,022</u>
<u>\$ 82,054</u>	<u>\$ 356,428</u>	<u>\$ 438,482</u>	<u>\$ 860,022</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2010
(Continued)

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Health and Human Services					
Direct Program:					
State Court Improvement Program	93.586		\$ 1,153,835	\$	\$ 1,153,835
Total Direct Program			\$ 1,153,835	\$ 0	\$ 1,153,835
Pass-Through Programs:					
Michigan Department of Human Services					
Child Support Enforcement	93.563	SCAO-09-IA-03	\$ 488,129	\$	\$ 488,129
Child Support Enforcement	93.563	SCAO-10-IA-02			0
Total Child Support Enforcement			\$ 488,129	\$ 0	\$ 488,129
Grants to States for Access and Visitation Programs	93.597	SCAO-09-IA-03	\$ 273,461	\$	\$ 273,461
Grants to States for Access and Visitation Programs	93.597	SCAO-10-IA-02			0
Total Grants to States for Access and Visitation Programs			\$ 273,461	\$ 0	\$ 273,461
Foster Care - Title IV-E	93.658	SCAO-09-IA-01	\$ 290,954	\$	\$ 290,954
Foster Care - Title IV-E	93.658	SCAO-10-IA-01			0
Total Foster Care - Title IV-E			\$ 290,954	\$ 0	\$ 290,954
Total Pass-Through Programs			\$ 1,052,544	\$ 0	\$ 1,052,544
Total U.S. Department of Health and Human Services			\$ 2,206,379	\$ 0	\$ 2,206,379
Total Expenditures of Federal Awards			\$ 2,448,254	\$ 1,912,138	\$ 4,360,392

(1) Basis of Presentation: This schedule includes the federal grant activity of the State-funded judicial operations on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

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

(3) Executive Order No. 2009-42 transferred the pass-through administration of the Edward Byrne Memorial Justice Assistance Grants from the Michigan Department of Community Health to the Michigan Department of State Police effective October 26, 2009. The Judiciary was reimbursed for the Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories through expenditure credits and, therefore, federal revenue and expenditures for this program are not recorded in the financial schedules.

For the Fiscal Year Ended September 30, 2010			Total Expended and Distributed
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	for the Two-Year Period
\$ 820,833	\$	\$ 820,833	\$ 1,974,668
<u>\$ 820,833</u>	<u>\$ 0</u>	<u>\$ 820,833</u>	<u>\$ 1,974,668</u>
\$	\$	\$ 0	\$ 488,129
451,982		451,982	451,982
<u>\$ 451,982</u>	<u>\$ 0</u>	<u>\$ 451,982</u>	<u>\$ 940,111</u>
\$ 18,995	\$	\$ 18,995	\$ 292,456
249,552		249,552	249,552
<u>\$ 268,547</u>	<u>\$ 0</u>	<u>\$ 268,547</u>	<u>\$ 542,008</u>
\$	\$	\$ 0	\$ 290,954
263,559		263,559	263,559
<u>\$ 263,559</u>	<u>\$ 0</u>	<u>\$ 263,559</u>	<u>\$ 554,513</u>
<u>\$ 984,088</u>	<u>\$ 0</u>	<u>\$ 984,088</u>	<u>\$ 2,036,632</u>
<u>\$ 1,804,921</u>	<u>\$ 0</u>	<u>\$ 1,804,921</u>	<u>\$ 4,011,300</u>
<u>\$ 2,176,823</u>	<u>\$ 2,330,835</u>	<u>\$ 4,507,658</u>	<u>\$ 8,868,050</u>

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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

The Honorable Robert P. Young, Jr.
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Young:

We have audited the financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated June 6, 2011. 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 State-funded judicial operations' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the State-funded judicial operations' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State-funded judicial operations' internal control over financial reporting.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State-funded judicial operations' financial schedules are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the State-funded judicial operations, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 6, 2011



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

Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

The Honorable Robert P. Young, Jr.
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Young:

Compliance

We have audited the State-funded judicial operations' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State-funded judicial operations' major federal programs for the two-year period ended September 30, 2010. The State-funded judicial operations' 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 State-funded judicial operations' management. Our responsibility is to express an opinion on the State-funded judicial operations' 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 State-funded judicial operations' 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 State-funded judicial operations' compliance with those requirements.

As described in Findings 3 through 5 in the accompanying schedule of findings and questioned costs, the State-funded judicial operations did not comply with requirements regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment that are applicable to its Child Support Enforcement, State Court Improvement Program, and Foster Care - Title IV-E Programs. Compliance with such requirements is necessary, in our opinion, for the State-funded judicial operations to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State-funded judicial operations complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each major federal program for the two-year period ended September 30, 2010. The results of our auditing procedures also disclosed other instances

of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs in Findings 1, 2, and 4.

Internal Control Over Compliance

Management of the State-funded judicial operations 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 State-funded judicial operations' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 State-funded judicial operations' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 1 through 5 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2 and 4 to be significant deficiencies.

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

This report is intended solely for the information and use of management, others within the State-funded judicial operations, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 6, 2011

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Significant deficiencies* identified?	None reported
Noncompliance or other matters material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	Yes
Significant deficiencies* identified?	Yes
Type of auditor's report issued on compliance for major programs:	
ARRA* - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	Unqualified
Alcohol Impaired Driving Countermeasures Incentive Grants I	Unqualified
Child Support Enforcement	Qualified
State Court Improvement Program	Qualified
Foster Care - Title IV-E	Qualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program</u>
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories

* See glossary at end of report for definition.

20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I
93.563	Child Support Enforcement
93.586	State Court Improvement Program
93.658	Foster Care - Title IV-E

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

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

The status of findings related to the financial schedules that were reported in prior single audits* is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

* See glossary at end of report for definition.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (9501101)

1. ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, CFDA 16.803

U.S. Department of Justice	CFDA 16.803: ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories
Award Number: 20100694 20093969	Award Period: 10/01/2009 - 09/30/2012 07/01/2009 - 09/30/2012
Pass-Through Entities: Michigan Department of Community Health and Michigan Department of State Police	Known Questioned Costs: \$0

The Judiciary's internal control over the ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment. Our review disclosed a material weakness in internal control regarding procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories awards.

Federal expenditures for the ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories totaled \$577,523 for the two-year period ended September 30, 2010.

The Judiciary's internal control did not ensure that its procurement and suspension and debarment practices were in compliance with federal regulations. Our review disclosed that the Judiciary did not have a process in place to ensure that it contracted with parties that had not been suspended or debarred. As a result, the Judiciary did not obtain a certification, document that it checked the federal Excluded Parties List System, or add a clause or condition to the contract for the one vendor for which the suspension and debarment regulation was applicable.

Although our review disclosed that the vendor was not suspended or debarred, the Judiciary's lack of internal control procedures increases the risk that other, or future, vendors could be suspended or debarred.

Title 2, Part 2867, section 30 of the *Code of Federal Regulations** (CFR) requires the Judiciary to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, obtaining a certification from that entity, or adding a clause or condition to the contract with that entity if the procurement contract is expected to equal or exceed \$25,000.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment.

* See glossary at end of report for definition.

FINDING (9501102)

2. Alcohol Impaired Driving Countermeasures Incentive Grants I, CFDA 20.601

U.S. Department of Transportation	CFDA 20.601: Alcohol Impaired Driving Countermeasures Incentive Grants I
Award Number: AL-08-13 AL-09-21 AL-10-11 AL-10-12 AL-10-14	Award Period: 10/01/2008 - 09/30/2009 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010 10/01/2009 - 09/30/2010 12/18/2009 - 09/30/2010
Pass-Through Entity: Michigan Department of State Police	Known Questioned Costs: \$0

The Judiciary's internal control over the Alcohol Impaired Driving Countermeasures Incentive Grants I Program did not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring. Our review disclosed a material weakness in internal control regarding procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Alcohol Impaired Driving Countermeasures Incentive Grants I Program awards.

Federal expenditures for the Alcohol Impaired Driving Countermeasures Incentive Grants I Program totaled \$860,022 for the two-year period ended September 30, 2010.

Our exceptions, by compliance area, are as follows:

a. **Procurement and Suspension and Debarment**

The Judiciary did not have a policy or a procedure in place to ensure that it obtained rate or price quotations for purchases. Although our review of 4 contracts noted that the Judiciary obtained the required rate or price quotations, the Judiciary's lack of internal control procedures increases the risk that rate or price quotations may not be obtained for future purchases.

The Alcohol Impaired Driving Countermeasures Incentive Grants I Program grant award requires the Judiciary to obtain rate or price quotations for all purchases under \$25,000.

b. Subrecipient Monitoring

The Judiciary's internal control did not ensure that the Judiciary performed adequate monitoring of subrecipient-reported program income to ensure that it was used exclusively to further program related traffic safety project activities. The Judiciary distributed \$727,615 as subrecipient payments to courts to fund driving while intoxicated specialty court programs. The courts generated program income from the participants of the court programs for such things as enrollment and program related treatment fees. The Judiciary required subrecipients to submit a program income report quarterly, which reported program income and related expenditures for the quarter and year-to-date. Four of the 10 subrecipients reimbursed during the two-year period ended September 30, 2010 reported program income and related expenditures totaling \$130,041. During our audit period, the Judiciary ensured that the program income reported by the subrecipients was spent and provided instructions to the courts that expenditures should be for purposes approved under the grant. However, the Judiciary was unaware of how much of the program income was attributable to the Alcohol Impaired Driving Countermeasures Incentive Grants I Program and did not ensure that the program income was used to further program related traffic safety project activities.

Subsequent to our review, the Judiciary contacted 2 of the subrecipients that accounted for 96% of the reported program income. These 2 subrecipients informed the Judiciary that only \$43,725 of the \$125,219 of program income that they reported was attributable to the Alcohol Impaired Driving Countermeasures Incentive Grants I Program. The subrecipients also confirmed that the program income was used appropriately to further program related traffic safety project activities. We did not consider this to be an instance of material noncompliance*.

Section 400(d) of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the Judiciary to monitor the activities of

* See glossary at end of report for definition.

subrecipients to ensure that they used federal awards in compliance with federal laws and regulations and provisions of contracts or grant agreements. The Alcohol Impaired Driving Countermeasures Incentive Grants I Program grant award required that program income be used exclusively to further program related traffic safety project activities.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the Alcohol Impaired Driving Countermeasures Incentive Grants I Program to ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring.

FINDING (9501103)

3. Child Support Enforcement, CFDA 93.563

U.S. Department of Health and Human Services	CFDA 93.563: Child Support Enforcement
Award Number: SCAO 09-IA-03 SCAO 10-IA-02	Award Period: 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010
Pass-Through Entity: Michigan Department of Human Services	Known Questioned Costs: \$3,128

The Judiciary's internal control over the Child Support Enforcement (CSE) Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the CSE Program.

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

Federal expenditures for the CSE Program totaled \$940,111 for the two-year period ended September 30, 2010. Of these expenditures, \$837,850 were payroll

expenditures. We identified known questioned costs of \$3,128 and known and likely questioned costs totaling \$60,759.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Judiciary's internal control did not ensure that CSE expenditures met the allowable cost principles of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (federal regulation 2 *CFR* 225). Our review of a sample of 20 payroll expenditures disclosed:

- (1) The Judiciary did not have a process in place to ensure that personnel activity reports met the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, 7 (35%) of 20 sampled payroll expenditures were not supported by personnel activity reports that reflected all the activity for which the employees were compensated. In addition, for 1 (5%) of 20 sampled payroll expenditures, a personnel activity report was not prepared. These included expenditures charged to the CSE Program and State-funded expenditures that the Judiciary used to match the CSE Program awards. We identified known questioned costs of \$2,428 and known and likely questioned costs of \$41,785.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires payroll to be supported by personnel activity reports that account for the total activity for which an employee is compensated.

- (2) The Judiciary's internal control did not ensure that it charged the appropriate amount of payroll expenditures to the CSE Program. As a result, the Judiciary charged the incorrect amount of payroll to the CSE Program for 10 (83%) of 12 sampled payroll expenditures for which the personnel activity reports accounted for all the activity that was compensated. The Judiciary's process for determining how much payroll to charge the federal programs did not take into account that payroll expenditures for employees can fluctuate throughout the year. The Judiciary also allocated payroll expenditures to the CSE Program for staff management hours based on the number of hours the supervisor charged the CSE Program rather than the number of hours that staff charged the

CSE Program. We identified known questioned costs of \$700 and known and likely questioned costs of \$18,974.

b. Matching, Level of Effort, and Earmarking

The Judiciary's internal control did not ensure compliance with federal laws and regulations regarding matching. As discussed in the Allowable Costs/Cost Principles section (part a.(1)) of this finding, the Judiciary needs to improve its internal control to ensure that payroll costs that are State-funded and used to match the federal program are properly documented.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that the salaries and wages of employees that are used to meet cost sharing or matching requirements must be supported in the same manner as those claimed as allowable costs under federal awards.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the CSE Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking.

FINDING (9501104)

4. State Court Improvement Program, *CFDA* 93.586

U.S. Department of Health and Human Services	<i>CFDA</i> 93.586: State Court Improvement Program
Award Number: 0701MISCIP 0701MISCIT 0701MISCID 0801MISCIP 0801MISCIT 0801MISCID 0901MISCIP 0901MISCIT 0901MISCID	Award Period: 10/01/2007 - 09/30/2009 10/01/2007 - 09/30/2009 10/01/2007 - 09/30/2009 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2008 - 09/30/2010 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011 10/01/2009 - 09/30/2011
	Known Questioned Costs: \$93,326

The Judiciary's internal control over the State Court Improvement Program did not ensure its compliance with federal laws and regulations regarding allowable

costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding procurement and suspension and debarment. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the State Court Improvement Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the State Court Improvement Program awards.

Federal expenditures for the State Court Improvement Program totaled \$1,974,668 for the two-year period ended September 30, 2010. We identified known questioned costs of \$93,326 and known and likely questioned costs totaling \$99,473.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Judiciary's internal control did not ensure that State Court Improvement Program expenditures met the allowable cost principles of OMB Circular A-87 (federal regulation 2 *CFR* 225). Our review disclosed:

- (1) The Judiciary did not have a process in place to ensure that personnel activity reports met the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225).

As described in Finding 5, part a.(1), our review noted that one employee's personnel activity reports during fiscal year 2008-09 recorded only hours that were worked on the State Court Improvement Program and did not reflect all the activity for which the employee was compensated. As a result, we identified known questioned costs of \$15,633 related to the employee's payroll expenditures charged to the State Court Improvement Program during fiscal year 2008-09.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires payroll to be supported by personnel activity reports that account for the total activity for which an employee is compensated.

(2) The Judiciary's internal control did not ensure that it charged the appropriate amount of payroll expenditures to the State Court Improvement Program. The State Court Improvement Program was funded by individual Training, Data, and Basic Program grant awards. Our review of 67 expenditures disclosed that the Judiciary incorrectly charged the State Court Improvement Program for 7 (58%) of 12 payroll transfer expenditures and incorrectly overcharged or undercharged the individual State Court Improvement Program grant awards for 3 (25%) of 12 payroll transfer expenditures. The Judiciary's process for determining how much payroll to charge the federal programs used quarterly payroll and benefit amounts that did not take into account that payroll expenditures for employees can fluctuate throughout the year. We identified known questioned costs of \$1,637 and known and likely questioned costs totaling \$5,661.

b. Matching, Level of Effort, and Earmarking

The Judiciary's internal control did not ensure compliance with federal laws and regulations regarding matching. The State Court Improvement Program was funded by individual Training, Data, and Basic Program grant awards. The Judiciary did not have a process in place to ensure that matching expenditures for the Data Grant were used for activities that were allowable under the grant award or that personnel activity reports met the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225). Subsequent to our review, the Judiciary identified matching expenditures that were for allowable activities of the Data Grant. However, \$15,845 of the matching expenditures related to payroll were not supported by personnel activity reports that reflected all the activity for which the employee was compensated. As a result, we identified known questioned costs of \$47,536 of related federal expenditures.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires payroll used to meet cost sharing or matching to be supported by personnel activity reports that account for the total activity for which an employee is compensated.

c. Procurement and Suspension and Debarment

The Judiciary's internal control did not ensure that its procurement and suspension and debarment practices were in compliance with federal regulations. Our review disclosed:

- (1) The Judiciary did not have a policy or a procedure in place to ensure that it obtained rate or price quotations for purchases. Our review disclosed that the Judiciary did not maintain documentation to support that rate or price quotations were obtained for 1 (7%) of 15 sampled items. As a result, we identified known questioned costs of \$28,520 and known and likely questioned costs totaling \$30,643.

Federal regulation 45 *CFR* 92.36 requires the Judiciary to follow the same policies and procedures it uses for procurements from its nonfederal funds. Because the Judiciary did not have its own policies and procedures, the Judiciary should have followed federal regulation 45 *CFR* 92.36(d), which requires rate or price quotations for purchases under \$100,000.

- (2) The Judiciary did not have a process in place to ensure that it contracted with parties that had not been suspended or debarred. As a result, the Judiciary did not document that it checked the federal Excluded Parties List System, obtain a certification, or add a clause or condition to the contract for 5 (83%) of 6 vendors reviewed.

Although our review of the 6 vendors disclosed that none of the vendors were suspended or debarred, the Judiciary's lack of internal control procedures increases the risk that other, or future, vendors could be suspended or debarred.

Federal regulation 2 *CFR* 376.30 requires the Judiciary to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, obtaining a certification from that entity, or adding a clause or condition to the contract with that entity.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the State Court Improvement Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment.

FINDING (9501105)

5. Foster Care - Title IV-E, CFDA 93.658

U.S. Department of Health and Human Services	CFDA 93.658: Foster Care - Title IV-E
Award Number: SCAO 09-IA-01 SCAO 10-IA-01	Award Period: 10/01/2008 - 09/30/2009 10/01/2009 - 09/30/2010
Pass-Through Entity: Michigan Department of Human Services	Known Questioned Costs: \$36,842

The Judiciary's internal control over the Foster Care - Title IV-E Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Foster Care - Title IV-E Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the Foster Care - Title IV-E Program awards.

Federal expenditures for the Foster Care - Title IV-E Program totaled \$554,513 for the two-year period ended September 30, 2010. Of these expenditures, approximately \$388,400 were payroll expenditures. We identified known questioned costs of \$36,842 and known and likely questioned costs totaling \$39,252.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Judiciary's internal control did not ensure that Foster Care - Title IV-E expenditures met the allowable cost principles of OMB Circular A-87 (federal regulation 2 *CFR* 225). Our review of a sample of 40 expenditures disclosed:

- (1) The Judiciary did not have a process in place to ensure that personnel activity reports met the requirements of OMB Circular A-87 (federal regulation 2 *CFR* 225). As a result, 1 (20%) of the 5 sampled payroll expenditures for employees who did not work 100% on the Foster Care - Title IV-E Program was not adequately supported. These included expenditures charged to the Foster Care - Title IV-E Program and State-funded expenditures that the Judiciary used to match the Foster Care - Title IV-E Program awards. In fiscal year 2008-09, the employee's process for completing the personnel activity reports was to record only hours that were not worked on the Foster Care - Title IV-E Program. As a result, the personnel activity report identified only hours charged to the State Court Improvement Program and did not reflect the hours that were charged to the Foster Care - Title IV-E Program or all the activity for which the employee was compensated. We identified known questioned costs of \$28,018 related to the employee's payroll expenditures charged to the Foster Care - Title IV-E Program during fiscal year 2008-09.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires payroll to be supported by personnel activity reports that account for the total activity for which an employee is compensated.

- (2) The Judiciary did not complete semiannual certifications for 3 (12%) of the 26 sampled payroll expenditures that required a certification. These included expenditures that were charged to the Foster Care - Title IV-E Program and State-funded expenditures that the Judiciary used to match the Foster Care - Title IV-E Program awards. The Judiciary's process to ensure that semiannual certifications were prepared was to use a checklist to make sure that all of the employees who worked 100% on the Foster Care - Title IV-E Program submitted a certification. However, for the 3 payroll expenditures for which the Judiciary did not prepare required certifications, the checklist was not completed for the individuals sampled.

Subsequent to our review, the Judiciary completed the required time certifications.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires certifications, at least semiannually, for employees who work solely on a single federal award.

b. Matching, Level of Effort, and Earmarking

The Judiciary's internal control did not ensure compliance with federal laws and regulations regarding matching. As discussed in the Allowable Costs/Cost Principles section (parts a.(1) and a.(2)) of this finding, the Judiciary needs to improve its internal control to ensure that payroll costs that are State-funded and used to match the federal program are properly documented.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that the salaries and wages of employees that are used to meet cost sharing or matching requirements must be supported in the same manner as those claimed as allowable costs under federal awards.

c. Procurement and Suspension and Debarment

The Judiciary's internal control did not ensure that its procurement and suspension and debarment practices were in compliance with federal regulations. Our review disclosed:

- (1) The Judiciary did not have a policy or a procedure in place to ensure that it obtained rate or price quotations for purchases. Our review disclosed that the Judiciary did not maintain documentation to support that rate or price quotations were obtained for 2 (40%) of 5 sampled items. As a result, we identified questioned costs of \$8,824 and known and likely questioned costs of \$11,234.

Federal regulation 45 *CFR* 92.36 requires the Judiciary to follow the same policies and procedures it uses for procurements from its nonfederal funds. Because the Judiciary did not have its own policies or procedures, the Judiciary should have followed federal regulation 45 *CFR* 92.36(d), which requires rate or price quotations for purchases under \$100,000.

- (2) The Judiciary did not have a process in place to ensure that it contracted with parties that had not been suspended or debarred. As a result, the Judiciary did not document that it checked the federal Excluded Parties List System, obtain a certification, or add a clause or condition to the contract for 2 (67%) of 3 vendors reviewed.

Although our review of the 3 vendors disclosed that none of the vendors were suspended or debarred, the Judiciary's lack of internal control procedures increases the risk that other, or future, vendors could be suspended or debarred.

Federal regulation 2 *CFR* 376.30 requires the Judiciary to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, obtaining a certification from that entity, or adding a clause or condition to the contract with that entity.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the Foster Care - Title IV-E Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and procurement and suspension and debarment.

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

OTHER SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS
Summary Schedule of Prior Audit Findings
As of June 6, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 9500901

Finding Title: Internal Control Components

Finding: The Judiciary needs to improve its internal control environment relative to anti-fraud programs, its risk assessment process, and its monitoring of internal control.

Agency Comments: The Judiciary has corrected the deficiencies.

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 9500902

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

Finding: The Judiciary's internal control over financial reporting did not ensure that its SEFA preparation process resulted in a reliable and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Agency Comments: The Judiciary has corrected the deficiencies.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 9500903

Finding Title: Highway Safety Cluster, *CFDA* 20.601, 20.604, 20.605, and 20.610

Finding: The Judiciary's internal control over the Highway Safety Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed and period of availability.

Agency Comments: The Judiciary has corrected the deficiencies.

STATE-FUNDED JUDICIAL OPERATIONS

Corrective Action Plan

As of June 1, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2009-10 and 2008-09.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 9501101

Finding Title: ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, *CFDA* 16.803

Management Views: The audit did not identify any instances in which the Judiciary did business with vendors that were suspended or debarred. The contract identified by the auditors was originally established when the pilot mental health court program was funded through the General Fund. The Judiciary does agree that its reviews for suspension and debarment should be documented.

Planned Corrective Action: The Judiciary will document its check of vendors using the federal Excluded Parties List System at the time contracts and purchase requests are initiated and will document the review of the Excluded Parties List System for ongoing contracts on a regular basis.

Anticipated Completion Date: Implemented prior to June 1, 2011.

Responsible Individual: Karen Ellis, Budget Officer

Finding Number: 9501102
Finding Title: Alcohol Impaired Driving Countermeasures Incentive Grants I, *CFDA* 20.601

Management Views:

- a. The Judiciary's procurement process is to negotiate the best rate possible using the rates in State of Michigan contracts as a maximum and obtaining additional bids or quotations when considered necessary. The auditors did not identify instances in which rate or price quotations were not obtained.
- b. As noted in the audit, the Judiciary did instruct subrecipients that program income should be used for purposes approved under the grant and ensured that the program income had been spent by the end of the grant. The additional detail subsequently obtained from the courts confirmed this.

Planned Corrective Action:

- a. The Judiciary will make sure that grant program managers document their process for obtaining prices or quotes for grant purchases.
- b. Federally funded drug courts with significant program income reported on their quarterly program reports will be contacted and asked for a written explanation of the fees, including confirmation of which federal programs are generating the income and how this income is being used for purposes approved under the grant.

Anticipated Completion Date: Implemented prior to June 1, 2011.

Responsible Individual: Karen Ellis, Budget Officer

Finding Number:

9501103

Finding Title:

Child Support Enforcement, *CFDA* 93.563

Management Views:

The 7 sampled payroll reports that did not reflect all activity for which the employees were compensated related to employees who were primarily funded by the General Fund and who spent less than 10% of their time on grant related activities during the period of the audit. The auditors agreed that they had no reason to doubt that the employees worked on the grant for the times shown on their time sheets. The 1 sampled item without a personnel activity report related to an employee who left abruptly without preparing a time sheet after being diagnosed with a recurrence of cancer. An estimated time sheet was prepared based on his grant related activity for the prior year.

The Child Support Enforcement grant is a pass-through program with the Michigan Department of Human Services (DHS). The method for calculating payroll charges used during the period of the audit was established several years ago in consultation with DHS and used an average monthly payroll rate established at the beginning of the year and the percentage of time the employee worked on the grant for the month. This method resulted in differences that were both over and under actual payroll charges for the month but which generally offset each other over the course of the year.

The sample selection technique used by the auditors resulted in only 4 of the 221 time sheets submitted by employees whose primary job responsibility is the Friend of the Court Bureau supported by the Child Support Enforcement grants being selected in the sample for testing. The Judiciary believes that this

limited sample of the time sheets related to more than two-thirds of the payroll charges billed to the grant may have resulted in an overstatement of the likely questioned costs for this program.

Planned Corrective Action: The Judiciary will make certain that payroll charged to grant programs is supported by personnel activity reports that account for the total activity for which employees are compensated and that the amounts charged reflect current payroll amounts.

Anticipated Completion Date: Implemented prior to June 1, 2011

Responsible Individual: Karen Ellis, Budget Officer

Finding Number: 9501104

Finding Title: State Court Improvement Program, *CFDA* 93.586

Management Views:

- a.(1) The questioned payroll costs relate to an employee whose primary responsibility is as the manager of the Foster Care Review Program. He also assisted with trainings under the State Court Improvement Program. The auditors agreed that although the employee did not document the total activity for which he was compensated with personnel activity reports, there was no reason to doubt that he assisted with the State Court Improvement Program trainings.
- a.(2) The method for calculating payroll charges used during the period of the audit used an average monthly payroll rate established at the beginning of the year and the percentage of

time the employee worked on the grant for the month. This method resulted in differences that were both over and under actual payroll charges for the month but which generally offset each other over the course of the year.

- b. The Judiciary had sufficient matching expenditures for costs that were allowable under the Data Grant award. In the future, the Judiciary will ensure that matching expenditures for payroll are supported by personnel activity reports that reflect all activity for which the employees are compensated.
- c.(1) The Judiciary's procurement process is to negotiate the best rate possible using the rates in State of Michigan contracts as a maximum and obtaining additional bids or quotations when considered necessary. The sampled item identified in the audit report for which rate or price quotes were not obtained related to a contract with an educational 501(c)(3) corporation established by Michigan probate judges. As an expert in the subject matter and Michigan law, the corporation was contracted to coordinate training programs.
- c.(2) The audit did not identify any instances in which the Judiciary did business with vendors that were suspended or debarred. The Judiciary does agree that its reviews for suspension and debarment should be documented.

- Planned Corrective Action:**
- a.(1) and a.(2) The Judiciary will make certain that payroll charged to grant programs is supported by personnel activity reports that account for the total activity for which employees are compensated and that the amounts charged reflect current payroll amounts.
 - b. The Judiciary will make certain that matching expenses are allowable under the specific grant award and, when personnel activity reports are used, the reports will account for the total activity for which the employees are compensated.
 - c.(1) The Judiciary will require grant program managers to document their process for obtaining prices or quotes for grant purchases.
 - c.(2) The Judiciary will document its check of vendors using the federal Excluded Parties List System at the time contracts and purchase requests are initiated and will document the review of the Excluded Parties List System for ongoing contracts on a regular basis.

Anticipated Completion Date: Implemented prior to June 1, 2011

Responsible Individual: Karen Ellis, Budget Officer

Finding Number:

9501105

Finding Title:

Foster Care - Title IV-E, *CFDA* 93.658

Management Views:

a. and b. The questioned payroll costs relate to an employee whose primary responsibility is as the manager of the Foster Care Review Board Program. He also assisted with trainings under the State Court Improvement Program. The auditors agreed that although the employee did not document the total activity for which he was compensated with personnel activity reports, there was no reason to doubt that his primary responsibility was management of the Foster Care Review Board Program.

c. The Judiciary's procurement process is to negotiate the best rate possible using the rates in State of Michigan contracts as a maximum and obtaining additional bids or quotations when considered necessary. The two sampled items for which the auditors indicated that no documentation was maintained for rate or price quotations related to conferences held in hotels that agreed to accept the State's room rate of \$65 a night.

The audit did not identify any instances in which the Judiciary did business with vendors that were suspended or debarred. The Judiciary does agree that its reviews for suspension and debarment should be documented.

- Planned Corrective Action:**
- a. and b. The Judiciary will make certain that payroll charged to grant programs is supported by personnel activity reports that account for the total activity for which employees are compensated and semiannual certifications for payroll expenditures that require a certification.

 - c. The Judiciary will require grant program managers to document their process for obtaining prices or quotes for grant purchases.

The Judiciary will document its check of vendors using the federal Excluded Parties List System at the time contracts and purchase requests are initiated and will document the review of the Excluded Parties List System for ongoing contracts on a regular basis.

Anticipated Completion Date: Implemented prior to June 1, 2011

Responsible Individual: Karen Ellis, Budget Officer

GLOSSARY

Glossary of Acronyms and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
CSE	Child Support Enforcement.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.
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 and correct, misstatements on a timely basis.
DHS	Department of Human Services.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

pass-through entity A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

qualified opinion An auditor's opinion in which the auditor:

- 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 deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

significant deficiency
in internal control over
financial reporting

A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

U.S. Office of
Management and
Budget (OMB)

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.

