



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
471-0100-12

Department of Corrections

October 1, 2009 through September 30, 2011

Released:
June 2012

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

Financial Schedules:

Auditor's Report Issued

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

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Internal Control Over Financial Reporting

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

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

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

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 9 programs (including 1 ARRA related program) as major programs and identified known questioned costs of

\$11,696. DOC expended a total of \$16.6 million in federal awards, including \$7.3 million of ARRA funding, during the two-year period ended September 30, 2011. We issued 8 unqualified opinions and 1 qualified opinion. 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 (Finding 1). We also identified significant deficiencies in internal control over federal program compliance (Findings 2 through 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 and 3).

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Internal Accounting and Administrative Control System:

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, State Budget Office, we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485

requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that DOC was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, State Budget Office.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
10.553 and 10.555	Child Nutrition Cluster	Qualified
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	Unqualified
16.593	Residential Substance Abuse Treatment for State Prisoners	Unqualified
16.606	State Criminal Alien Assistance Program	Unqualified
16.744	Anti-Gang Initiative (CAGI)	Unqualified
81.041	ARRA - State Energy Program	Unqualified
84.002	Adult Education - Basic Grants to States	Unqualified
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	Unqualified
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	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>



Michigan Office of the Auditor General
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Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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

June 19, 2012

Mr. Daniel H. Heyns, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Mr. Heyns:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 2009 through September 30, 2011.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DOC financial schedules and supplemental financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements 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 DOC's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section 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 plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,


Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

Mr. Daniel H. Heyns, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Mr. Heyns:

We have audited the accompanying financial schedules of the Department of Corrections for the fiscal years ended September 30, 2011 and September 30, 2010, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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

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

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 2011 and September 30, 2010 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
June 5, 2012

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

	2011	2010
REVENUES		
From federal agencies	\$ 5,079,339	\$ 4,835,079
From local agencies	262,186	349,103
From services		
Resident stores	4,798,467	4,756,202
Public Works Program	292,775	913,124
Other states (Note 3)	15,709,064	14,589,880
Other	193,308	360,846
Miscellaneous		
Civil infraction fee	5,593,034	6,003,841
Oversight fees	6,498,443	7,184,373
Tether Program contributions	1,993,236	1,333,800
Reentry centers offender reimbursements	14,301	20,779
Other	1,798,382	1,051,182
Total revenues	\$ 42,232,536	\$ 41,398,208

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

	<u>2011</u>	<u>2010</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 1,900,078,400	\$ 1,919,711,100
Budgetary transfers in (out)		
Balances carried forward	8,779,045	7,420,664
Restricted financing sources	41,796,624	41,230,968
Less: Intrafund expenditure reimbursements	<u>(162,668)</u>	<u>(163,411)</u>
 Total	 <u>\$ 1,950,491,401</u>	 <u>\$ 1,968,199,321</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out	\$ 1,929,742,498	\$ 1,958,808,500
Less: Intrafund expenditure reimbursements	<u>(162,668)</u>	<u>(163,411)</u>
Net expenditures and transfers out	<u>\$ 1,929,579,830</u>	<u>\$ 1,958,645,089</u>
Balances carried forward:		
Encumbrances	\$ 10,600,656	\$ 5,787,902
Multi-year projects	649,493	
Restricted revenues - authorized	943,985	943,985
Restricted revenues - not authorized or used	<u>2,843,146</u>	<u>2,047,158</u>
Total balances carried forward	<u>\$ 15,037,280</u>	<u>\$ 8,779,045</u>
Balances lapsed	<u>\$ 5,874,291</u>	<u>\$ 775,187</u>
 Total	 <u>\$ 1,950,491,401</u>	 <u>\$ 1,968,199,321</u>

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC) for the fiscal years ended September 30, 2011 and September 30, 2010. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and Miscellaneous Trust Accounts Fund, which are audited as part of the *SOMCAFR* and did not receive any federal assistance.

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

b. Measurement Focus, Basis of Accounting, and Presentation

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

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DOC or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

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

financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. The total reimbursements were \$162,668 and \$163,411 for fiscal years 2010-11 and 2009-10, respectively. Expenditures in these amounts were recorded in the Michigan Department of Education to purchase supplies and materials for prisoners in the career and technical education program.
- f. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations. Significant encumbrances were \$8,149,945 and \$4,608,182 for fiscal years 2010-11 and 2009-10, respectively, for miscellaneous operating projects throughout DOC.
- g. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. The carry-forward of this type was \$649,493 in fiscal year 2010-11 for a pilot public safety program for the City of Flint. The funding was intended to improve public safety in the Flint community by purchasing available jail space in other county jails to free up bed space in the Genesee County jail, so more offenders could be detained in secure lockup. The work project represents the unexpended balance of this money.
- h. 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. Revenues - authorized for DOC were made up of \$943,985 and \$943,985 for fiscal years 2010-11 and 2009-10, respectively, from the State Criminal Alien Assistance Program (SCAAP). The SCAAP funds are used for salary costs and equipment purchases at the correctional facilities.

- i. 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 approval. However, DOC had not received legislative authorization to expend the revenues. Restricted revenues - not authorized or used for DOC were made up of \$2,843,146 and \$2,047,158 for fiscal years 2010-11 and 2009-10, respectively, from parolee and probationary supervision fees. Section 791.225a of the *Michigan Compiled Laws* restricts 20% of parolee and probationary supervision fees for administrative and enhanced services costs. Enhanced services include, but are not limited to, the purchase of services for parolees, such as counseling, employment training, employment placement, or education; public transportation expenses related to training, counseling, or employment; enhancement of staff performance through specialized training and equipment purchase; and purchase of items for parolee employment. The restricted revenue - not authorized or used represents the unexpended balance of this money.

- j. 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 Revenues Received From Other States

DOC received reimbursement from the State of Pennsylvania for the cost of housing Pennsylvania Department of Corrections prisoners in a DOC facility.

Note 4 Commitments From Litigation

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

The case of *Tracy Neal, et al. v McGinnis, et al.* from 2009 was settled for the sum of \$100,000,000. The remaining scheduled annual payments are:

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

SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2011

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 17,608,000	\$ (265,000)	\$ 299	\$	\$ 17,343,299
Planning and Community Support	122,233,500	(11,925,000)		7,696,777	118,005,277
Operations Support Administration	47,733,700	3,840,000	1,765,215	363,888	53,702,803
Field Operations Administration	197,838,500		2,122,429	8,553,059	208,513,987
Consent Decrees	57,596,700	(9,413,900)			48,182,800
Health Care	93,895,400	14,195,000	1,650		108,092,050
Clinical Operations	158,494,100	(17,890,000)	780,146	193,440	141,577,686
Correctional Facilities - Administration	44,085,800	5,000	10,648	7,336,700	51,438,147
Correctional Facilities - Prison Food Service	66,170,500	480,000	23,569	578,403	67,252,472
Correctional Facilities - Transportation	19,170,300	4,250,000	143		23,420,443
Information Technology	20,652,700			414,600	21,067,300
Subtotal for Central Administration	<u>\$ 845,479,200</u>	<u>\$ (16,723,900)</u>	<u>\$ 4,704,099</u>	<u>\$ 25,136,866</u>	<u>\$ 858,596,265</u>
Facility Operations					
Alger Correctional Facility - Munising	\$ 26,726,200	\$ 1,300,000	\$	\$ 427	\$ 28,026,627
Baraga Maximum Correctional Facility - Baraga	31,253,100	2,130,000		32,704	33,415,804
Bellamy Creek Correctional Facility - Ionia	38,971,200	780,000	1,467	2,171	39,754,838
Earnest C. Brooks Correctional Facility - Muskegon	45,105,100	2,410,000		4,491	47,519,591
Carson City Correctional Facility - Carson City	46,217,600	(145,000)	20,573	4,343	46,097,515
Chippewa Correctional Facility - Kincheloe	45,926,900	1,175,000		813	47,102,713
Cooper Street Correctional Facility - Jackson	28,142,200	(1,100,000)	105,436	12,947	27,160,583
G. Robert Cotton Correctional Facility - Jackson	39,001,600		21,642	17,238	39,040,480
Charles E. Egeler Correctional Facility - Jackson	37,793,900	2,930,100	1,182,861	602,806	42,509,666
Richard A. Handlon Correctional Facility - Ionia	23,748,500	2,922,200	5,151	2,255	26,678,107
Gus Harrison Correctional Facility - Adrian	44,912,100	353,700	2,652	4,801	45,273,253
Women's Huron Valley Correctional Facility - Ypsilanti	57,557,100	(3,370,000)	1,621,302	6,833	55,815,235
Ionia Maximum Correctional Facility - Ionia	30,676,600	(635,000)	3,305	2,264	30,047,169
Kinross Correctional Facility - Kincheloe	35,542,800	670,000	109,315	73,888	36,396,004
Lakeland Correctional Facility - Coldwater	45,795,600	(3,930,000)	10,968	11,973	41,888,541
Macomb Correctional Facility - New Haven	29,690,700	1,200,000	129	3,263	30,894,092
Marquette Branch Prison - Marquette	37,481,300	(951,800)	50,566	927	36,580,993
Michigan Reformatory - Ionia	32,490,700	3,100,000	18,779	453	35,609,932
Mound Correctional Facility - Detroit	25,528,000	3,475,000	14,047	1,034	29,018,081
Muskegon Correctional Facility - Muskegon				15,709,402	15,709,402
Newberry Correctional Facility - Newberry	25,924,500	295,000	18,207	41	26,237,747
Oaks Correctional Facility - Eastlake	33,825,500	(1,385,000)			32,440,500
Ojibway Correctional Facility - Marenisco	19,244,500	1,125,000		5,888	20,375,388
Parnall Correctional Facility - Jackson	27,060,200		24,673	3,254	27,088,127
Pine River Correctional Facility - St. Louis	39,613,100	2,910,000		9,015	42,532,115
Pugsley Correctional Facility - Kingsley	20,616,000	1,275,000		68,111	21,962,357
Riverside Correctional Facility - Ionia			24,456		24,456
Ryan Correctional Facility - Detroit	28,631,200	940,000	7,101	1,285	29,579,586
Saginaw Correctional Facility - Freeland	31,436,900			2,574	31,439,474
Robert Scott Correctional Facility - Plymouth			132,668		132,668
St. Louis Correctional Facility - St. Louis	32,139,900	1,934,700	726	724	34,076,050
Standish Maximum Correctional Facility - Standish					0
Thumb Correctional Facility - Lapeer	29,144,400	610,000	2,596	4,804	29,761,800
Woodland Center Correctional Facility	25,519,200	(4,795,000)	7,572		20,731,772
Southwestern Region Administration and Support			7,835		7,835
Southeastern Region Administration and Support	22,178,300		642,070		22,820,370
Northern Region Administration and Support	6,147,500				6,147,500
Special Alternative Incarceration Program - Cassidy Lake	10,556,800	1,500,000	35,604	69,028	12,161,431
Subtotal for Facility Operations	<u>\$ 1,054,599,200</u>	<u>\$ 16,723,900</u>	<u>\$ 4,074,946</u>	<u>\$ 16,659,758</u>	<u>\$ 1,092,057,804</u>
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (162,668)	\$ (162,668)
Total	<u>\$ 1,900,078,400</u>	<u>\$ 0</u>	<u>\$ 8,779,045</u>	<u>\$ 41,633,956</u>	<u>\$ 1,950,491,401</u>

Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Multi-Year Projects	Restricted Revenues - Authorized	Restricted Revenues - Not Authorized or Used	Balances Lapsed	Total
\$ 17,341,399	\$ 58	\$	\$	\$	\$ 1,843	\$ 17,343,299
114,597,965	6,345				3,400,968	118,005,277
51,672,652	1,930,361				99,790	53,702,803
204,773,655	6,842			2,843,146	890,344	208,513,987
48,108,034	67,512				7,254	48,182,800
108,045,968	1,229				44,854	108,092,050
140,646,401	633,873				297,412	141,577,686
48,616,393	2,048,607	649,493			123,654	51,438,147
67,220,440	10,828				21,204	67,252,472
23,412,402	5,544				2,498	23,420,443
21,063,446					3,854	21,067,300
<u>\$ 845,498,755</u>	<u>\$ 4,711,198</u>	<u>\$ 649,493</u>	<u>\$ 0</u>	<u>\$ 2,843,146</u>	<u>\$ 4,893,675</u>	<u>\$ 858,596,265</u>
\$ 27,953,779	\$ 24,370	\$	\$	\$	\$ 48,479	\$ 28,026,627
33,413,637	9				2,157	33,415,804
39,746,730	2,933				5,174	39,754,838
47,486,581	180				32,831	47,519,591
45,990,918	1,835				104,763	46,097,515
47,068,026	6,759				27,928	47,102,713
27,040,894	102,376				17,313	27,160,583
38,983,014					57,467	39,040,480
41,320,228	238,571		943,985		6,882	42,509,666
26,641,285	5,993				30,828	26,678,107
45,178,302	3,622				91,329	45,273,253
53,820,397	1,989,959				4,879	55,815,235
30,015,688	4,215				27,266	30,047,169
36,282,466	109,322				4,215	36,396,004
41,810,199	8,852				69,490	41,888,541
30,736,657					157,435	30,894,092
36,478,774	26,803				75,416	36,580,993
35,589,508					20,424	35,609,932
28,973,967	19,943				24,171	29,018,081
15,709,166					235	15,709,402
26,204,924	18,207				14,617	26,237,747
32,013,684	400,000				26,816	32,440,500
20,344,908	3,175				27,305	20,375,388
27,060,096	5,738				22,293	27,088,127
42,509,000	16,705				6,411	42,532,115
21,957,135	3,597				1,625	21,962,357
	24,456					24,456
29,545,177	27,277				7,132	29,579,586
31,433,305					6,169	31,439,474
	132,668					132,668
34,072,585					3,466	34,076,050
						0
29,739,516	2,942				19,342	29,761,800
20,723,412	6,572				1,788	20,731,772
(2,376)	3,575				6,636	7,835
20,165,170	2,650,110				5,090	22,820,370
6,113,221	34,214				64	6,147,500
12,123,771	14,481				23,180	12,161,431
<u>\$ 1,084,243,743</u>	<u>\$ 5,889,458</u>	<u>\$ 0</u>	<u>\$ 943,985</u>	<u>\$ 0</u>	<u>\$ 980,617</u>	<u>\$ 1,092,057,804</u>
<u>\$ (162,668)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (162,668)</u>
<u>\$ 1,929,579,830</u>	<u>\$ 10,600,656</u>	<u>\$ 649,493</u>	<u>\$ 943,985</u>	<u>\$ 2,843,146</u>	<u>\$ 5,874,291</u>	<u>\$ 1,950,491,401</u>

DEPARTMENT OF CORRECTIONS

Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2010

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 13,966,000	\$ (236,000)	\$ 146	\$	\$ 13,730,146
Planning and Community Support	115,577,500	(7,173,000)	13	7,478,821	115,883,335
Operations Support Administration	43,575,400	2,749,000	1,626,990	110,400	48,061,790
Field Operations Administration	191,511,600		2,940,171	8,997,120	203,448,891
Consent Decrees	59,672,400	(15,177,100)	4,485		44,499,785
Health Care	98,600,900	16,710,000	300		115,311,200
Clinical Operations	159,790,100	(16,710,000)	121,659	464,148	143,665,907
Correctional Facilities - Administration	60,317,300	(18,872,200)	3,726	7,120,983	48,569,809
Correctional Facilities - Prison Food Service	71,618,300	1,500,000	1	562,961	73,681,262
Correctional Facilities - Transportation	23,326,600	2,400,000	246		25,726,846
Information Technology	21,731,100			151,800	21,882,900
Subtotal for Central Administration	\$ 859,687,200	\$ (34,809,300)	\$ 4,697,737	\$ 24,886,233	\$ 854,461,870
Facility Operations					
Alger Correctional Facility - Munising	\$ 26,966,400	\$ 510,000	\$	\$ 49	\$ 27,476,449
Baraga Maximum Correctional Facility - Baraga	30,879,600	1,660,000		88,617	32,628,217
Bellamy Creek Correctional Facility - Ionia	36,245,800	2,800,000		28,886	39,074,686
Earnest C. Brooks Correctional Facility - Muskegon	44,906,500	340,000	427	5,739	45,252,667
Carson City Correctional Facility - Carson City	45,888,300	710,000	9	64,964	46,663,273
Chippewa Correctional Facility - Kincheloe	46,859,800	1,240,000		1,619	48,101,419
Cooper Street Correctional Facility - Jackson	27,705,300		88,250	133,307	27,926,856
G. Robert Cotton Correctional Facility - Jackson	38,433,000	680,000	5,759	15,562	39,134,322
Charles E. Egeler Correctional Facility - Jackson	37,458,200	3,081,000	1,329,045	834,471	42,702,716
Richard A. Handlon Correctional Facility - Ionia	22,998,300	3,061,300	45	2,451	26,062,096
Gus Harrison Correctional Facility - Adrian	44,629,100	1,875,000	60,269	62,723	46,627,093
Women's Huron Valley Correctional Facility - Ypsilanti	66,544,300	(8,341,450)	255,648	7,705	58,466,203
Ionia Maximum Correctional Facility - Ionia	29,273,600		444	1,390	29,275,434
Kinross Correctional Facility - Kincheloe	35,289,000	1,486,000	146,812	124,004	37,045,816
Lakeland Correctional Facility - Coldwater	45,544,200	4,007,000	34	75,799	49,627,033
Macomb Correctional Facility - New Haven	27,174,000	2,864,900	20	2,422	30,041,343
Marquette Branch Prison - Marquette	37,280,100	625,000		1,374	37,906,474
Michigan Reformatory - Ionia	25,879,100	3,400,000			29,279,100
Mound Correctional Facility - Detroit	26,009,100	2,400,000		4,285	28,413,385
Muskegon Correctional Facility - Muskegon	8,100,000	3,082,200	9,621	14,590,893	25,782,713
Newberry Correctional Facility - Newberry	26,520,600	1,120,000	19,301	540	27,660,441
Oaks Correctional Facility - Eastlake	33,488,200	(1,561,000)			31,927,200
Ojibway Correctional Facility - Marenisco	19,094,900	1,070,000		17,008	20,181,908
Parnall Correctional Facility - Jackson	26,112,800		4,864	2,192	26,119,856
Pine River Correctional Facility - St. Louis	20,488,200	880,000		7,705	21,375,905
Pugsley Correctional Facility - Kingsley	19,947,700	2,000,000	8,061	119,610	22,075,371
Riverside Correctional Facility - Ionia			24,456		24,456
Ryan Correctional Facility - Detroit	28,971,000	1,500,000	372	4,729	30,476,101
Saginaw Correctional Facility - Freeland	30,847,000	686,000		1,869	31,534,869
Robert Scott Correctional Facility - Plymouth			132,668	536	133,204
St. Louis Correctional Facility - St. Louis	49,885,800	3,598,350		6,117	53,490,267
Standish Maximum Correctional Facility - Standish	4,100,000	1,350,000			5,450,000
Thumb Correctional Facility - Lapeer	28,847,500	1,035,000		3,009	29,885,509
Woodland Center Correctional Facility	15,695,100	1,850,000			17,545,100
Southwestern Region Administration and Support	16,636,200	(2,800,000)			13,836,200
Southeastern Region Administration and Support	21,361,400	(1,900,000)	636,199		20,097,599
Northern Region Administration and Support	3,592,900				3,592,900
Special Alternative Incarceration Program - Cassidy Lake	10,370,900	500,000	623	135,160	11,006,682
Subtotal for Facility Operations	\$ 1,060,023,900	\$ 34,809,300	\$ 2,722,927	\$ 16,344,735	\$ 1,113,900,862
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (163,411)	\$ (163,411)
Total	\$ 1,919,711,100	\$ 0	\$ 7,420,664	\$ 41,067,557	\$ 1,968,199,321

Disposition of Authorizations

Expenditures and Transfers Out	Encumbrances	Restricted Revenues - Authorized	Restricted Revenues - Not Authorized or Used	Balances Lapsed	Total
\$ 13,723,408	\$ 299	\$	\$	\$ 6,439	\$ 13,730,146
115,401,007				482,328	115,883,335
46,288,691	1,765,215			7,884	48,061,790
201,317,101	75,271		2,047,158	9,361	203,448,891
44,483,433				16,352	44,499,785
115,276,499	1,650			33,051	115,311,200
142,818,642	780,146			67,119	143,665,907
48,543,692	10,648			15,469	48,569,809
73,656,768	23,569			925	73,681,262
25,726,281	143			421	25,726,846
21,881,684				1,216	21,882,900
<u>\$ 849,117,206</u>	<u>\$ 2,656,941</u>	<u>\$ 0</u>	<u>\$ 2,047,158</u>	<u>\$ 640,565</u>	<u>\$ 854,461,870</u>
\$ 27,475,927	\$	\$	\$	\$ 522	\$ 27,476,449
32,627,320				898	32,628,217
39,072,781	1,467			438	39,074,686
45,252,115				551	45,252,667
46,641,737	20,573			963	46,663,273
48,100,941				478	48,101,419
27,816,500	105,436			4,921	27,926,856
39,106,307	21,642			6,372	39,134,322
41,514,718	238,875	943,985		5,137	42,702,716
26,056,221	5,151			723	26,062,096
46,622,547	2,652			1,893	46,627,093
56,834,594	1,621,302			10,307	58,466,203
29,271,360	3,305			770	29,275,434
36,935,733	109,315			768	37,045,816
49,614,937	10,968			1,129	49,627,033
30,029,918	129			11,295	30,041,343
37,855,832	50,566			76	37,906,474
29,260,265	18,779			55	29,279,100
28,379,162	14,047			20,176	28,413,385
25,781,223				1,490	25,782,713
27,641,528	18,207			705	27,660,441
31,926,723				477	31,927,200
20,181,735				173	20,181,908
26,071,344	24,673			23,839	26,119,856
21,375,378				527	21,375,905
22,071,361	3,246			764	22,075,371
	24,456				24,456
30,460,344	7,101			8,657	30,476,101
31,534,830				39	31,534,869
536	132,668				133,204
53,488,921	726			620	53,490,267
5,449,823				177	5,450,000
29,882,851	2,596			63	29,885,509
17,534,844	7,572			2,684	17,545,100
13,827,945	7,835			420	13,836,200
19,430,812	642,070			24,717	20,097,599
3,592,044				856	3,592,900
10,970,139	35,604			939	11,006,682
<u>\$ 1,109,691,295</u>	<u>\$ 3,130,960</u>	<u>\$ 943,985</u>	<u>\$ 0</u>	<u>\$ 134,622</u>	<u>\$ 1,113,900,862</u>
<u>\$ (163,411)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (163,411)</u>
<u>\$ 1,958,645,089</u>	<u>\$ 5,787,902</u>	<u>\$ 943,985</u>	<u>\$ 2,047,158</u>	<u>\$ 775,187</u>	<u>\$ 1,968,199,321</u>

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2010	2011	
<u>U.S. Department of Agriculture</u>					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 265,010	\$ 251,804	\$ 516,814
National School Lunch Program	10.555	330008008	447,790	443,812	891,602
Total Child Nutrition Cluster			<u>\$ 712,800</u>	<u>\$ 695,616</u>	<u>\$ 1,408,416</u>
Total Pass-Through Programs			<u>\$ 712,800</u>	<u>\$ 695,616</u>	<u>\$ 1,408,416</u>
Total U.S. Department of Agriculture			<u>\$ 712,800</u>	<u>\$ 695,616</u>	<u>\$ 1,408,416</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		\$ 292,000	\$ 362,816	\$ 654,816
State Criminal Alien Assistance Program	16.606		994,851	600,000	1,594,851
Anti-Gang Initiative (CAGI)	16.744		854,586	1,030,308	1,884,894
Total Direct Programs			<u>\$ 2,141,437</u>	<u>\$ 1,993,124</u>	<u>\$ 4,134,561</u>
Pass-Through Program:					
Michigan Department of State Police					
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-5-10-R	\$ 329,680	\$	\$ 329,680
Residential Substance Abuse Treatment for State Prisoners	16.593	90006-6-11-R		745,263	745,263
Total Residential Substance Abuse Treatment for State Prisoners			<u>\$ 329,680</u>	<u>\$ 745,263</u>	<u>\$ 1,074,943</u>
Total Pass-Through Program			<u>\$ 329,680</u>	<u>\$ 745,263</u>	<u>\$ 1,074,943</u>
Total U.S. Department of Justice			<u>\$ 2,471,117</u>	<u>\$ 2,738,387</u>	<u>\$ 5,209,504</u>
<u>U.S. Department of Labor</u>					
Direct Program:					
Reintegration of Ex-Offenders	17.270		\$ 58,798	\$ 30,047	\$ 88,845
Total Direct Program			<u>\$ 58,798</u>	<u>\$ 30,047</u>	<u>\$ 88,845</u>
Total U.S. Department of Labor			<u>\$ 58,798</u>	<u>\$ 30,047</u>	<u>\$ 88,845</u>
<u>U.S. Department of Energy</u>					
Pass-Through Programs:					
Michigan Department of Technology, Management, and Budget					
ARRA - State Energy Program	81.041	472	\$ 16,986	\$ 2,827,700	\$ 2,844,686
Michigan Department of Licensing and Regulatory Affairs					
ARRA - State Energy Program	81.041	472	66,839	4,347,683	4,414,522
Total Pass-Through Programs			<u>\$ 83,825</u>	<u>\$ 7,175,383</u>	<u>\$ 7,259,208</u>
Total U.S. Department of Energy			<u>\$ 83,825</u>	<u>\$ 7,175,383</u>	<u>\$ 7,259,208</u>
<u>U.S. Department of Education</u>					
Direct Program:					
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals					
	84.331		\$ 559,640	\$ 533,803	\$ 1,093,443
Total Direct Program			<u>\$ 559,640</u>	<u>\$ 533,803</u>	<u>\$ 1,093,443</u>
Pass-Through Programs:					
Michigan Department of Licensing and Regulatory Affairs					
Adult Education - Basic Grants to States	84.002	101120/10500027	\$ 33,000	\$	\$ 33,000
Adult Education - Basic Grants to States	84.002	101190/1010117	250,000		250,000
Adult Education - Basic Grants to States	84.002	111120/10500027		33,000	33,000

This schedule continued on next page.

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2009 through September 30, 2011
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2010	2011	
Adult Education - Basic Grants to States	84.002	111190/11010117	\$	\$ 230,000	\$ 230,000
Total Adult Education - Basic Grants to States			\$ 283,000	\$ 263,000	\$ 546,000
Michigan Department of Education					
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	101660/0910	\$ 255,167	\$	\$ 255,167
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	111660/1011		243,291	243,291
Total Title I State Agency Program for Neglected and Delinquent Children and Youth			\$ 255,167	\$ 243,291	\$ 498,458
Special Education Cluster:					
Special Education - Grants to States	84.027	090450/0809	\$ 1,429	\$	\$ 1,429
Special Education - Grants to States	84.027	100480/EOSD	30,000		30,000
Special Education - Grants to States	84.027	100490/TS	5,000		5,000
Special Education - Grants to States	84.027	100450/0910	53,488	3,559	57,047
Special Education - Grants to States	84.027	110480/EOSD		30,000	30,000
Special Education - Grants to States	84.027	110450/1011		57,047	57,047
Total Special Education Cluster			\$ 89,917	\$ 90,606	\$ 180,523
Career and Technical Education - Basic Grants to States	84.048	MDE	\$ 171,500	\$ 171,500	\$ 343,000
Total Career and Technical Education - Basic Grants to States			\$ 171,500	\$ 171,500	\$ 343,000
Improving Teacher Quality State Grants	84.367	100520/0910	\$ 3,022	\$	\$ 3,022
Improving Teacher Quality State Grants	84.367	110520/1011		2,552	2,552
Total Improving Teacher Quality State Grants			\$ 3,022	\$ 2,552	\$ 5,574
Total Pass-Through Programs			\$ 802,606	\$ 770,949	\$ 1,573,555
Total U.S. Department of Education			\$ 1,362,246	\$ 1,304,752	\$ 2,666,998
Total Expenditures of Federal Awards			\$ 4,688,786	\$ 11,944,185	\$ 16,632,971

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Corrections (DOC) on the modified accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. As a result, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenues. For example, DOC received an additional \$943,985 and \$943,985 for fiscal years 2009-10 and 2010-11, respectively, in excess of the amount expended for the State Criminal Alien Assistance Program. This amount was carried forward for use in subsequent fiscal years. Also, beginning in fiscal year 2006-07, DOC obtained funding for the Career and Technical Education - Basic Grants to States Program from expenditure credits. As a result, no federal revenue is recorded for the \$163,411 and \$162,668 expended for the program for fiscal years 2009-10 and 2010-11, respectively. DOC also received federal revenue of \$337,600 and \$586,880 for fiscal years 2009-10 and 2010-11, respectively, from housing federal prisoners and for providing services to the U.S. Department of Health and Human Services. These amounts are not federal assistance so they are not included on this schedule.

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

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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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

Mr. Daniel H. Heyns, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Mr. Heyns:

We have audited the financial schedules of the Department of Corrections for the fiscal years ended September 30, 2011 and September 30, 2010, as identified in the table of contents, and have issued our report thereon dated June 5, 2012. 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

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

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

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 5, 2012



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
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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

Mr. Daniel H. Heyns, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Mr. Heyns:

Compliance

We have audited the Department of Corrections' 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 Department's major federal programs for the two-year period ended September 30, 2011. 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 of its major federal programs 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 Finding 1 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding eligibility that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Corrections 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 of its major federal programs for the two-year period ended September 30, 2011. 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 Finding 3.

Internal Control Over Compliance

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 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 Department's 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 a deficiency in internal control over compliance that we consider to be a material weakness 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 the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 1 to be a material weakness.

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 the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 2 through 4 to be significant deficiencies.

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.

Sincerely,



Thomas H. McTavish, C.P.A.

Auditor General

June 5, 2012

**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:

Unqualified for all major programs except for the Child Nutrition Cluster, which is qualified*.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget* (OMB) Circular A-133, Section 510(a)?	Yes
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Identification of major programs:

<u>CFDA* Number</u>	<u>Name of Federal Program or Cluster*</u>
10.553 and 10.555	Child Nutrition Cluster
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)

* See glossary at end of report for definition.

16.593	Residential Substance Abuse Treatment for State Prisoners
16.606	State Criminal Alien Assistance Program
16.744	Anti-Gang Initiative (CAGI)
81.041	ARRA* - State Energy Program
84.002	Adult Education - Basic Grants to States
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals

Dollar threshold used to distinguish between type A and type B programs: \$498,989

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.

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

* See glossary at end of report for definition.

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.

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 (4711201)

1. Child Nutrition Cluster, CFDA 10.553 and 10.555

U.S. Department of Agriculture	Child Nutrition Cluster: CFDA 10.553: School Breakfast Program CFDA 10.555: National School Lunch Program
Award Number: 330008008 330008008 330008008	Award Period: 07/01/2009 - 06/30/2010 07/01/2010 - 06/30/2011 07/01/2011 - 06/30/2012
Pass-Through Entity*: Michigan Department of Education	Known Questioned Costs: \$113

The Department of Corrections' (DOC's) internal control over the Child Nutrition Cluster did not ensure compliance with federal laws and regulations regarding eligibility*. Our review disclosed material weaknesses in internal control and material noncompliance* with federal laws and regulations related to eligibility. As a result, we issued a qualified opinion on compliance with federal laws and

* See glossary at end of report for definition.

regulations for the Child Nutrition Cluster. We also identified known questioned costs of \$113.

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

Federal expenditures for the Child Nutrition Cluster totaled \$1.4 million for the two-year period ended September 30, 2011.

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

DOC informed us that the correctional facilities participating in the program were responsible for identifying eligible prisoners. During fiscal years 2009-10 and 2010-11, DOC received reimbursement for 293,666 breakfast meals and 393,456 lunch meals.

Our review of eligibility documentation for 4 of the 7 correctional facilities that participated in the School Breakfast Program and the National School Lunch Program during the two-year period disclosed:

- a. One correctional facility did not ensure that eligible prisoners were housed separately from prisoners who were not less than 21 years old. As a result, we questioned costs allocated to this correctional facility, which totaled \$113.

Federal regulation 7 *CFR* 210.2 limits eligibility to meals served to prisoners under the age of 21 who are enrolled in school. In addition, the U.S. Department of Agriculture's Residential Child Care Institution's Guidance Manual requires that prisoners enrolled in the program must be housed in a distinct part of the institution designed primarily for the care of prisoners enrolled in the program. The Guidance Manual further states that, when a

* See glossary at end of report for definition.

correctional facility serves as a residential child care institution, if the prisoners who are eligible for the program reside on one side of a corridor with non-eligible prisoners on the opposite side, the distinct or separate wing or identifiable area requirement is satisfied. Our review disclosed that otherwise eligible prisoners were routinely bunked with prisoners who were not less than 21 years old.

- b. The 4 correctional facilities did not consistently use current eligibility data to prepare and support DOC's monthly meal reimbursement claims.

In March 2006, DOC developed a daily prisoner count sheet, maintained in DOC's Offender Management Network Information (OMNI) system, that serves as a current listing of prisoners eligible for the program. However, for 3 of the 8 weekly meal counts reviewed, the 4 correctional facilities did not obtain the current daily prisoner count sheets.

The daily prisoner count sheet should be obtained daily by each correctional facility and used to ensure that only eligible prisoners are claimed for reimbursement.

RECOMMENDATION

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

FINDING (4711202)

- 2. Prisoner Reentry Initiative Demonstration (Offender Reentry), CFDA 16.202

U.S. Department of Justice	CFDA 16.202: Prisoner Reentry Initiative Demonstration (Offender Reentry)
Award Number: 2007-RE-CX-0008 2008-RE-CX-0005	Award Period: 10/01/2007 - 03/31/2011 08/01/2008 - 07/31/2011
	Known Questioned Costs: \$0

DOC had not established internal control over the Prisoner Reentry Initiative Demonstration (Offender Reentry) Program (Prisoner Reentry Initiative Program) to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions and disallowances.

Federal expenditures for the Prisoner Reentry Initiative Program totaled \$654,816 for the two-year period ended September 30, 2011. Of the \$654,816 expended, \$575,757 was for expenditures for three contractors.

Federal regulation 2 *CFR* 2867.30 requires DOC to verify that an entity is not suspended or debarred by checking the federal Excluded Parties List System, collecting a certification form from that entity, or adding a clause or condition to the covered transaction with that entity.

During our review of the Prisoner Reentry Initiative Program, we noted that, for 1 (33%) of the 3 parties that it had contracted with, DOC did not verify that the entity was not suspended or debarred by checking the federal Excluded Parties List System, collect a certification form from the entity, or add a clause or condition to the covered transaction with the entity. DOC spent \$37,880 for services from this one vendor.

Our review of the federal Excluded Parties List System verified that all 3 of the parties that DOC had contracted with for the Prisoner Reentry Initiative Program had not been suspended or debarred during the respective fiscal years.

RECOMMENDATION

We recommend that DOC establish internal control over the Prisoner Reentry Initiative Program to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

FINDING (4711203)

3. Residential Substance Abuse Treatment for State Prisoners, CFDA 16.593

U.S. Department of Justice	CFDA 16.593: Residential Substance Abuse Treatment for State Prisoners
Award Number: 2009-RT-BX-4002 2010-RT-BX-0002	Award Period: 10/01/2008 - 09/30/2012 10/01/2009 - 09/30/2013
Pass-Through Entity: Michigan Department of State Police	Known Questioned Costs: \$11,583

DOC's internal control over the Residential Substance Abuse Treatment for State Prisoners (RSAT) Program did not ensure compliance with federal laws and regulations regarding eligibility. We identified known questioned costs of \$11,583.

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

Federal expenditures for the RSAT Program totaled \$1.1 million for the two-year period ended September 30, 2011.

Title 42, section 3796(ff) of the *United States Code (USC)* states that, in order to receive funds under this subchapter, a state must agree to implement or continue to require urinalysis or other proven reliable forms of testing, including both periodic and random testing during the period in which the individual participates in the treatment program.

DOC informed us that all drug and alcohol tests are documented in the Client Management Information System (CMIS).

We reviewed documentation from the files of 25 prisoners who were admitted to the RSAT Program during fiscal years 2009-10 and 2010-11. Our review disclosed that 4 (16%) prisoners had no drug or alcohol screens documented in CMIS while they were enrolled in the RSAT Program.

RECOMMENDATION

We recommend that DOC improve its internal control over the RSAT Program to ensure compliance with federal laws and regulations regarding eligibility.

FINDING (4711204)

4. Grants to States for Workplace and Community Transition Training for Incarcerated Individuals, CFDA 84.331

U.S. Department of Education	CFDA 84.331: Grants to States for Workplace and Community Transition Training for Incarcerated Individuals
Award Number: Q331A080023 Q331A090023 Q331A100023	Award Period: 07/01/2008 - 09/30/2009 07/01/2009 - 09/30/2010 07/01/2010 - 09/30/2011
	Known Questioned Costs: \$0

DOC had not established internal control over the Grants to States for Workplace and Community Transition Training for Incarcerated Individuals (known in Michigan as the Community and Employment Readiness Training [CERT] Program) to ensure compliance with federal laws and regulations regarding eligibility and procurement and suspension and debarment.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions and disallowances.

Federal expenditures for the CERT Program totaled \$1.1 million for the two-year period ended September 30, 2011.

Our exceptions, by compliance area, are as follows:

a. Eligibility

DOC's internal control did not ensure that all CERT applicants met program eligibility requirements.

Federal law 20 USC 1151(e) limits CERT eligibility to a prisoner who has obtained a secondary school diploma or its recognized equivalent. This section also requires that a prisoner (1) be eligible to be released within seven years (including a prisoner who is eligible for parole within such time); (2) is 35 years of age or younger; and (3) has not been convicted of certain offenses.

DOC informed us that CERT Program staff generate a listing from DOC's Offender Education Tracking system of prisoners who meet program criteria. From this listing, program staff verify prisoner program eligibility and sign off on the prisoner application file.

Our review of 25 application files for prisoners who participated in the CERT Program during fiscal years 2009-10 and 2010-11 disclosed that 9 (36%) applications for entrance into the CERT Program were not signed to document approval by the CERT coordinator. Although we were able to verify that all 9 met all eligibility criteria, the CERT coordinator's approval provides documentation that the application was reviewed and that the prisoner has met the qualifications for entrance into the CERT Program.

In addition, we noted that DOC did not effectively monitor the enrollment data of prisoners within the CERT Program. DOC was not able to provide us with a complete listing of all prisoners who received services in the CERT Program for our audit period.

b. Procurement and Suspension and Debarment

DOC's internal control did not ensure that the main vendor it had contracted with for the CERT Program had not been suspended or debarred.

Federal regulation 34 *CFR* 80.35 states that grantees and subgrantees must 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.

During our review of the CERT Program, we noted that, for 1 (33%) of the 3 parties that it had contracted with, DOC did not verify that the entity was not suspended or debarred by checking the federal Excluded Parties List System, collect a certification form from the entity, or add a clause or condition to the covered transaction with the entity.

Our review of the federal Excluded Parties List System verified that the main vendor that DOC had contracted with for the CERT Program had not been suspended or debarred during the respective fiscal years.

RECOMMENDATION

We recommend that DOC establish internal control over the CERT Program to ensure compliance with federal laws and regulations regarding eligibility and procurement and suspension and debarment.

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

** See glossary at end of report for definition.*

OTHER SCHEDULES

DEPARTMENT OF CORRECTIONS
Summary Schedule of Prior Audit Findings
As of June 5, 2012

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior single audit.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2007 through September 30, 2009

Finding Number: 4711001

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

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

Agency Comments: DOC has implemented the Meal Track Automated System at all facilities using Child Nutrition Cluster federal funding to help address the concerns noted in the prior audit report. The System tracks all prisoners who receive meals in food service. The System is then reconciled on a daily basis against the National School Lunch Program roster that is maintained in the Offender Management Network Information (OMNI) system, which tracks all eligible National School Lunch Program participants to ensure that only eligible prisoners are included on the monthly meal reimbursement claims.

DOC has received approval from the U.S. Department of Education to allow electronic food service director's signatures on monthly meal reimbursement claim forms.

DOC has reminded all National School Lunch Program participating facilities to use current daily prisoner count sheets to ensure that participants meet the federal guidelines.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of June 5, 2012

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 2010-11 and 2009-10.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 4711201

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

Management Views: The Department of Corrections (DOC) agrees that one facility did not ensure that eligible prisoners were housed in accordance with the program requirements and will comply.

Planned Corrective Action: Regarding part a., DOC will comply by providing additional training and education to facility custody staff responsible for the placement of prisoners within the housing units. Food service directors will be assigned the responsibility of ensuring that the participants included on the billing document meet all program eligibility requirements.

Regarding part b., DOC will comply by providing additional training and education to food service staff in the use and importance of the daily count sheets. The food service directors will be responsible for verifying the accuracy of the daily count sheet used to ensure compliance with the program requirements.

Central office will monitor the monthly program facility reimbursement submissions to ensure program compliance.

Anticipated Completion Date: August 1, 2012

Responsible Individual: Brad Purves, Food Service Manager

Finding Number: 4711202

Finding Title: Prisoner Reentry Initiative Demonstration (Offender Reentry), *CFDA* 16.202

Management Views: DOC agrees.

Planned Corrective Action: DOC complied by adding an item to the DOC contract preparation checklist to require procurement staff to verify that a vendor is not suspended or debarred from the federal Excluded Parties List System. Additionally, the Department of Technology, Management, and Budget now requires vendors that bid on contracts posted on the Bid4Michigan Web site to certify that they are not suspended or debarred.

Anticipated Completion Date: Completed

Responsible Individual: Lia Gulick, Finance Manager

Finding Number: 4711203

Finding Title: Residential Substance Abuse Treatment for State Prisoners, *CFDA* 16.593

Management Views: DOC agrees and will comply. However, 3 of the 4 cases noted in the finding were for participants who did not complete the program due to termination by DOC or withdrawal by the participants. In each of the

3 cases, there was time between the participants' termination date and the end date of the program that would have provided opportunity for the participants to be tested.

Planned Corrective Action: DOC will enhance its internal control by developing a written procedure to ensure that random and periodic drug and alcohol testing is completed as required by the federal regulations. The Residential Substance Abuse Treatment for State Prisoners (RSAT) Manager will track and monitor the drug testing system to ensure compliance with the program requirements.

Anticipated Completion Date: July 1, 2012

Responsible Individual: Kenneth Brzozowski, Administrator of Community Alternatives

Finding Number: 4711204

Finding Title: Grants to States for Workplace and Community Transition Training for Incarcerated Individuals, *CFDA* 84.331

Management Views: DOC agrees but notes that the Community and Employment Readiness Training (CERT) coordinator did approve eligibility for all participating prisoners before enrolling the prisoners. However, this approval was not always documented.

Planned Corrective Action: Regarding part a., DOC will comply by adding a signature line to the program application to document the CERT coordinator's approval of the participant's eligibility. DOC will also ensure that the program CERT coordinator maintains an up-to-date roster of all

program participants and verifies the college billing to the roster.

Regarding part b., DOC complied by adding an item to the DOC contract preparation checklist to require procurement staff to verify that a vendor is not suspended or debarred from the federal Excluded Parties List System. Additionally, the Department of Technology, Management, and Budget now requires vendors that bid on contracts posted on the Bid4Michigan Web site to certify that they are not suspended or debarred.

Anticipated Completion Date: Part a. August 1, 2012
Part b. Completed

Responsible Individuals: Tony Costello, Acting Education Manager
Lia Gulick, Finance Manager

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.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
<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.
Community and Employment Readiness Training (CERT) Program	Michigan's program for the federal Grants to States for Workplace and Community Transition Training and Incarcerated Individuals, <i>CFDA</i> 84.331.
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.
DOC	Department of Corrections.
eligibility	Qualified in accordance with program requirements.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules 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 that causes the schedules 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 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 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.
Prisoner Reentry Initiative Program	Prisoner Reentry Initiative Demonstration (Offender Reentry) Program.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <ul 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 presenting the basic financial information of the audited entity in conformity with the disclosed basis of accounting or the financial schedules presenting supplemental financial information in relation to the basic financial schedules. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or b. Identifies a scope limitation or material noncompliance with one or more of the cited compliance 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.
RSAT	Residential Substance Abuse Treatment for State Prisoners.
SCAAP	State Criminal Alien Assistance Program.
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 <i>Government Auditing Standards</i> issued by the Comptroller

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

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

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

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

USC

United States Code.

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.

