



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
Department of Military and Veterans Affairs
(Revised)

October 1, 2005 through September 30, 2007

Report Number:
 511-0100-08F

Released:
 December 2011

This is our revised report of the Department of Military and Veterans Affairs' report issued July 10, 2008. Subsequent to the issuance date, additional information came to our attention that was present at the date of our previously-issued report that affected our independent auditor's reports dated June 27, 2008 on internal control over financial reporting and on the Department's compliance with requirements applicable to its major federal programs and on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Financial Statements:

Auditor's Report Issued

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

~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 and 3 through 6). We consider Finding 1 to contain a material weakness.

~ ~ ~ ~ ~

Noncompliance and Other Matters

Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*. However, we did identify other instances of noncompliance (Findings 2, 5, and 6).

~ ~ ~ ~ ~

Federal Awards:

Revised Auditor's Reports Issued on Compliance

We audited 3 programs as major programs and reported known questioned costs of \$1,623,108 and known and likely questioned costs totaling \$5,397,105. The Department expended a total of \$168.7 million in federal awards during the two-year period ended September 30, 2007. We issued 1 unqualified opinion and 2 qualified opinions. The opinions issued by major program are identified on the back of this summary.

~ ~ ~ ~ ~

Internal Control Over Major Programs

We identified significant deficiencies related to internal control over a major program (Findings 7 through 9). We consider Findings 8 and 9 to contain material weaknesses.

~ ~ ~ ~ ~

Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 (Findings 7 through 9).

Systems of Accounting and Internal Control:

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

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
12.400	Military Construction, National Guard	Unqualified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Qualified
12.404	National Guard Civilian Youth Opportunities	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>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

December 29, 2011

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vadnais:

This is our revised report on the financial audit, including the provisions of the Single Audit Act, of the Department of Military and Veterans Affairs for the period October 1, 2005 through September 30, 2007. This report replaces our previously-issued report dated July 10, 2008. Subsequent to July 10, 2008, additional information came to our attention (which was present at the report date) that affected our independent auditor's reports dated June 27, 2008 on internal control over financial reporting and on the Department's compliance with requirements applicable to its major federal programs and on its internal control over compliance in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133.

This revised report contains our report summary, our independent auditor's report on the financial statements, and the Department's financial statements and supplemental financial statement and schedule. This revised report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133, and our schedule of findings and questioned costs. In addition, this revised report contains the Department's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

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

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

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

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

TABLE OF CONTENTS

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS	
Independent Auditor's Report on the Financial Statements	8
Department of Military and Veterans Affairs Financial Statements	
Statement of Sources and Disposition of General Fund Authorizations	10
Statement of General Fund Revenues and Other Financing Sources	11
Notes to the Financial Statements	12
SUPPLEMENTAL FINANCIAL STATEMENT AND SCHEDULE	
Statement of Certain General Fund Assets and Liabilities	25
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	28
INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	32

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	34
---	----

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results	38
Section II: Findings Related to the Financial Statements	39
1. Schedule of Expenditures of Federal Awards (SEFA)	39
2. Federal Reimbursements	43
3. Internal Control Over Accounting Transaction Processing	45
4. Internal Control Over Food Purchases and Receipt	46
5. Internal Control Over Records Retention	47
6. Internal Control Over Procurement	48
Section III: Findings and Questioned Costs Related to Federal Awards	48
7. Military Construction, National Guard, <i>CFDA</i> 12.400	49
8. National Guard Military Operations and Maintenance (O&M) Projects, <i>CFDA</i> 12.401	52
9. National Guard Civilian Youth Opportunities, <i>CFDA</i> 12.404	58

OTHER SCHEDULES

Summary Schedule of Prior Audit Findings	66
Corrective Action Plan	67

GLOSSARY

Glossary of Acronyms and Terms	78
--------------------------------	----

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on the Financial Statements

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vadnais:

We have audited the accompanying financial statements of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

This independent auditor's report replaces our previously-issued report dated June 27, 2008. The Department's previously-issued schedule of expenditures of federal awards was revised. As described more fully in Note 3 to the financial statements, the Department's schedule of expenditures of federal awards was materially misstated. The misstatement did not affect the Department's basic financial statements. However, the misstatement caused us to revise our independent auditor's report on internal control over financial reporting to report a material weakness in the Department's preparation of its schedule of expenditures of federal awards (Finding 1). In addition, the Department's basic financial statements were modified to include capital outlay activity previously accounted for in another State department to present a more complete financial reporting of the Department's activities. We also amended the titles of the previously-issued financial schedules to financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
December 13, 2011

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

	<u>2007</u>	<u>2006</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations (Note 6)	\$ 39,299,200	\$ 39,689,100
Balances carried forward	2,411,230	6,308,123
Restricted financing sources	100,520,919	102,937,618
Less: Intrafund expenditure reimbursements	(651,148)	(557,549)
Total sources of authorizations	<u>\$ 141,580,201</u>	<u>\$ 148,377,292</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	\$ 113,232,656	\$ 112,869,089
Capital outlay	24,230,149	32,817,737
Less: Intrafund expenditure reimbursements	(651,148)	(557,549)
Net expenditures and transfers	<u>\$ 136,811,657</u>	<u>\$ 145,129,277</u>
Gross authorizations for carry forward	\$ 4,768,544	\$ 3,248,015
Balances lapsed	<u>(1,427,033)</u>	<u>(836,785)</u>
Net authorizations carried forward	<u>\$ 3,341,511</u>	<u>\$ 2,411,230</u>
Balances carried forward:		
Encumbrances	\$ 289,724	\$ 151,871
Restricted revenues - authorized	1,589,464	918,047
Restricted revenues - not authorized or used	\$ 1,439,076	\$ 962,677
Multi-year projects	<u>23,247</u>	<u>378,635</u>
Total balances carried forward	<u>\$ 3,341,511</u>	<u>\$ 2,411,230</u>

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

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

	2007	2006
REVENUES		
From federal agencies:		
National Guard Bureau	\$ 54,220,933	\$ 59,500,927
Veterans Administration State Home Program	19,712,942	19,642,074
Medicare and Medicaid	2,858,208	2,105,131
U.S. Department of Education	96,713	
U.S. Department of Health and Human Services	42,757	75,373
Total from federal agencies	\$ 76,931,553	\$ 81,323,505
From services:		
Cost-of-care assessments	\$ 20,477,074	\$ 19,869,240
Other services	170	119
Total from services	\$ 20,477,244	\$ 19,869,359
Miscellaneous revenue:		
Local School Aid Fund (Note 5)	\$ 1,253,100	\$
Armory Rental Program	95,193	99,444
Other miscellaneous	425,113	1,095,580
Total miscellaneous revenue	\$ 1,773,406	\$ 1,195,024
Total revenues	\$ 99,182,203	\$ 102,387,888
OTHER FINANCING SOURCES		
Proceeds from sale of capital assets - Armory Sales	\$ 900,000	\$ 302,341
Less: Proceeds transferred to Department of Technology, Management, and Budget capital outlay (Note 4)	(5,364)	
Total other financing sources	\$ 894,636	\$ 302,341
Total revenues and other financing sources	\$ 100,076,839	\$ 102,690,229

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

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the results of the Department of Military and Veterans Affairs' financial transactions for the fiscal years ended September 30, 2007 and September 30, 2006. The Department is one of 17 departments that record their activities in the General Fund. The General Fund is reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

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

b. Measurement Focus, Basis of Accounting, and Presentation

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

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

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

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

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

In accordance with GAAP, amounts expended by the Department in the acquisition of capital assets are reported as capital outlay expenditures. The corresponding asset acquired is reported in the *SOMCAFR* on the government-wide financial statements. Under the modified accrual basis of accounting, capital assets are not reported in governmental funds. Note 7 provides information on those capital assets that are the responsibility of the Department.

In addition, the notes include various disclosures that provide information about liabilities of a long-term nature that are not reported in governmental funds under the modified accrual basis of accounting (see Note 6, Military Retirement Benefits; Note 8, Compensated Absences; Note 9, Pension Benefits; Note 10, Other Postemployment Benefits; and Note 11, Risk Management).

Note 2 Statement of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used. In addition to the amount recorded in the financial statements, the Department also has spending authorization available for large capital outlay projects that will be primarily financed through the collection of future federal revenue. Because the federal revenue has not yet been earned or received, the spending authorizations are not included on the statement of sources and disposition of General Fund authorizations. The total amount of the spending authorizations was \$51,767,745 for fiscal year 2006-07 and \$73,701,416 for fiscal year 2005-06.

- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used. The Department's restricted financing sources include federal revenue, cost-of-care assessments, and local revenue for the ChalleNGe Program (Note 5).
- d. Intrafund expenditure reimbursements: The Department provided services to the Michigan Department of State Police for U.S. Department of Homeland Security grants. Because both departments are in the General Fund, the Department recorded the reimbursement received as an expenditure credit.
- e. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenues - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenue carry-forwards may be expended for the purpose of the carry-forwards without additional legislative authorization. The balances reported in fiscal year 2006-07 (\$1,589,464) and fiscal year 2005-06 (\$918,047) are the amounts restricted for the Michigan National Guard Armory Construction Fund (Note 4).

- h. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. In fiscal year 2006-07, significant carry-forwards of this type included federal assistance of \$357,948 from the U.S. Department of Veterans Affairs and \$851,018 of cost-of-care assessments collected by the Grand Rapids Home for Veterans and D.J. Jacobetti Home for Veterans. In fiscal year 2005-06, significant carry-forwards of this type included federal assistance of \$527,522 from the U.S. Department of Veterans Affairs and \$379,639 of cost-of-care assessments collected by the Grand Rapids Home for Veterans and the D.J. Jacobetti Home for Veterans.
- i. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.

Note 3 Correction of Reporting Error

Subsequent to releasing the previously-issued audit report, dated July 10, 2008, additional information came to our attention that the schedule of expenditures of federal awards was materially misstated. The previously-issued schedule of expenditures of federal awards did not identify and separately report \$44.4 million of federal awards expended for the two-year period ended September 30, 2007 from the Military Construction, National Guard Program (CFDA 12.400). Instead, the expenditures were reported as federal awards expended from the National Guard Military Operations and Maintenance (O&M) Projects (CFDA 12.401). The misclassification did not affect the Department's basic financial statements.

The Department's basic financial statements were modified to include capital outlay activity accounted for in another State department to present a more complete financial reporting of the Department's activities. Previously, in accordance with State accounting policy, the capital outlay activity was reported in the financial schedules of the department receiving the appropriation (DTMB). This reporting is consistent with the Department's basic

financial statement presentation for the subsequent two-year period ended September 30, 2009 (511-0100-10). In addition, we amended the titles of the previously-issued financial schedules to financial statements.

Note 4 Department of Military and Veterans Affairs Armory Construction Fund

Act 150, P.A. 1967, created the Michigan National Guard Armory Construction Fund as a subfund of the General Fund. The proceeds from the sale of capital assets (land and armories) and interest earnings are deposited in the Fund and restricted for use in funding State armory capital outlay projects.

Armory capital outlay projects are primarily appropriated within DTMB's Office of Design and Construction accounts. To provide spending authorization to cover construction costs, portions of the restricted carry-forward authorized balance are transferred to DTMB as construction costs are incurred. In fiscal year 2006-07, a transfer of \$283,638 was recorded. In fiscal year 2005-06, a transfer of \$2,189,782 was recorded.

Note 5 ChalleNGe Program

The ChalleNGe Program is for high school dropouts aged 16 to 18 upon entry. The goal of the Program is to use the National Guard to improve education, life skills, and employment potential of participants by use of military-based training and supervised work experience. The Program is administered by the Department and funded in part with federal funds requiring a 40% match of State funds. Prior to fiscal year 2006-07, the State used General Fund/general purpose appropriations to fund the 40% State match requirement. In fiscal year 2006-07, State General Fund/general purpose appropriations were no longer used to provide the 40% State match requirement.

Instead, the Department entered into a contract with the Battle Creek Public School District. The purpose of this contract is to outline the terms and conditions upon which the district will utilize the program funding pursuant to the provisions of Section 24c, Act 342, P.A. 2006. The Battle Creek Public School District received a distribution from the School Aid Fund of \$1.3 million in accordance with Section 24c, Act 342, P.A. 2006. The contract directs the district to request, receive, and deposit these funds in the district's checking account and then, using a check drawn on the district's checking account, to

forward these funds to the Department. The Department reports these funds as miscellaneous revenue. The contract further requires the Department to utilize all funds received from the district to provide the State's 40% match requirement for the ChalleNGe Program.

Note 6 Military Retirement Benefits

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

Expenditures for the military retirement plan totaled \$3,141,035 for fiscal year 2006-07 and \$2,952,000 for fiscal year 2005-06. The actuarially determined unfunded liabilities (performed biennially) for the military retirement plan as of September 30, 2007 totaled \$41.9 million. The *SOMCAFR* provides more extensive disclosures regarding the military retirement plan.

Note 7 Capital Assets

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

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

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

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

The following tables summarize, by major class of asset, changes in reported costs for the Department's capital assets for the fiscal years ended September 30, 2007 and September 30, 2006:

	Balance at September 30, 2006	Additions	Deletions/ Adjustments	Balance at September 30, 2007
Land	\$ 8,981,056	\$	\$ 227,207	\$ 9,208,263
Buildings	180,773,012	11,827,512	(3,724,250)	188,876,274
Construction in progress	37,184,113	4,309,518	(8,487,513)	33,006,118
Equipment	6,227,805	631,945	(182,006)	6,677,744
Total	\$233,165,986	\$16,768,975	\$(12,166,562)	\$237,768,399

	Balance at September 30, 2005	Additions	Deletions/ Adjustments	Balance at September 30, 2006
Land	\$ 7,351,696	\$ 1,629,360	\$	\$ 8,981,056
Buildings	176,974,083	3,798,929		180,773,012
Construction in progress	31,890,306	28,185,552	(22,891,745)	37,184,113
Equipment	5,801,757	553,032	(126,984)	6,227,805
Total	\$222,017,842	\$34,166,873	\$(23,018,729)	\$233,165,986

Note 8 Compensated Absences

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

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50%

of the employees' sick leave accumulation times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0 to 50%, depending upon the balance of their sick leave hours. Sick leave is valued at 0 to 50% plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2007.

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

The estimated compensated absences liabilities for the Department employees for the fiscal years ended September 30, 2007 and September 30, 2006 are reported in the following table:

	September 30	
	2007	2006
Annual leave	\$5,068,352	\$5,315,678
Sick leave	\$1,130,945	\$1,262,078

Note 9 Pension Benefits

State classified employees who work on the Department programs are covered by two single employer pension plans offered by the State of Michigan: the State Employees' Defined Benefit Retirement Plan and the State Employees' Defined Contribution Retirement Plan (Plans). Detailed information regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports.

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

For the State Employees' Defined Benefit Retirement Plan, the Department was billed and paid an average of 21.7% (\$7,567,075) and 26.8% (\$9,120,888) of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2006-07 and 2005-06, respectively. For the State Employees' Defined Contribution Retirement Plan, the Department is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. The Department contributions totaled \$1,144,240 and \$1,134,298 for fiscal years 2006-07 and 2005-06, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management, and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

Note 10 Other Postemployment Benefits

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

Note 11 Risk Management

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past 10 fiscal years.

For unemployment claims, the Unemployment Insurance Agency bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by the Unemployment Insurance Agency through September 30. During fiscal years 2006-07 and 2005-06, expenditures for payments to former Department employees totaled \$84,635 and \$61,088. The potential liability for future payments cannot be estimated.

The Department also paid actual workers' compensation claims and administrative fees for Department employees totaling \$9,032 and \$6,721 in fiscal years 2006-07 and 2005-06, respectively.

SUPPLEMENTAL FINANCIAL
STATEMENT AND SCHEDULE

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

	2007	2006
ASSETS		
Due from federal agencies	\$ 11,502,570	\$ 19,137,867
Due from component units	48,861	55,000
Miscellaneous accounts receivable	46,317	123,125
Inventories	43,457	2,640
Total assets	\$ 11,641,205	\$ 19,318,632
LIABILITIES		
Accounts payable	\$ 6,802,296	\$ 6,897,142
Deferred revenue	77,369	101,517
Due to other funds	8,717	8,056
Other liabilities	467,313	379,462
Total liabilities	\$ 7,355,695	\$ 7,386,177

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Schedule of Expenditures of Federal Awards (Notes 1 and 2)
For the Period October 1, 2005 through September 30, 2007

For the Fiscal Year Ended September 30, 2006

Federal Agency/Program	CFDA * Number	Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 3)	Total Expended, Distributed, and In-Kind Assistance
<u>U.S. Department of Defense</u>					
Direct Programs:					
Military Construction, National Guard (Note 2)	12.400	\$ 25,869,788	\$	\$	\$ 25,869,788
Total Military Construction, National Guard		<u>\$ 25,869,788</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,869,788</u>
National Guard Military Operations and Maintenance (O&M) Projects:					
Appendix 1 Army National Guard Real Property Operations and Maintenance (Note 2)	12.401	\$ 16,100,911	\$	\$ 2,673,586	\$ 18,774,497
Appendix 2 Army National Guard Environmental Resources Management	12.401	2,473,185		474,600	2,947,785
Appendix 3 Army National Guard Security Guard Activities	12.401	1,441,626			1,441,626
Appendix 4 Army National Guard Electronic Security System Operation & Maintenance	12.401	281,847			281,847
Appendix 5 Army National Guard Telecommunications	12.401	696,061			696,061
Appendix 6 Army National Guard Aviation Training Base Operations	12.401	52,420			52,420
Appendix 7 Army National Guard Sustainable Range Program	12.401	2,157,970		80,332	2,238,302
Appendix 10 Army National Guard Antiterrorism Program Manager Activities	12.401	62,208			62,208
Appendix 14 Office of the Chief - Administrative Services Activities	12.401	74,658			74,658
Appendix 21 Air National Guard Facilities Operations and Maintenance Activities	12.401	2,490,659		3,638,914	6,129,573
Appendix 22 Air National Guard Environmental Program Management	12.401	153,991			153,991
Appendix 23 Air National Guard Security Guard Services	12.401	1,440,246		49,009	1,489,255
Appendix 24 Air National Guard Fire Protection Activities	12.401	3,326,379		104,680	3,431,059
Appendix 40 Army National Guard Distance Learning Project	12.401	60,218			60,218
Total National Guard Military Operations and Maintenance (O&M) Projects		<u>\$ 30,812,379</u>	<u>\$ 0</u>	<u>\$ 7,021,121</u>	<u>\$ 37,833,500</u>
National Guard Civilian Youth Opportunities:					
ChalleNGe Program	12.404	\$ 1,717,159	\$	\$	\$ 1,717,159
Starbase Program	12.404		1,101,600		1,101,600
Total National Guard Civilian Youth Opportunities		<u>\$ 1,717,159</u>	<u>\$ 1,101,600</u>	<u>\$ 0</u>	<u>\$ 2,818,759</u>
Total U.S. Department of Defense		<u>\$ 58,399,326</u>	<u>\$ 1,101,600</u>	<u>\$ 7,021,121</u>	<u>\$ 66,522,047</u>
<u>U.S. Department of Veterans Affairs</u>					
Direct Programs:					
Grants to States for Construction of State Home Facilities	64.005	\$ 993,899	\$	\$	\$ 993,899
Veterans State Domiciliary Care	64.014	1,120,990			1,120,990
Veterans State Nursing Home Care	64.015	17,258,621			17,258,621
Total U.S. Department of Veterans Affairs (Note 4)		<u>\$ 19,373,510</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,373,510</u>
<u>U.S. Department of Education</u>					
Pass-Through Program:					
Michigan Department of Community Health (Note 5)					
Safe and Drug-Free Schools and Communities: State Grants	84.186	\$	\$	\$	\$ 0
Total U.S. Department of Education		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>U.S. Department of Health and Human Services</u>					
Pass-Through Program:					
Michigan Department of Community Health (Note 5)					
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 75,373	\$	\$	\$ 75,373
Total U.S. Department of Health and Human Services		<u>\$ 75,373</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,373</u>
Total Expenditures of Federal Awards		<u>\$ 77,848,209</u>	<u>\$ 1,101,600</u>	<u>\$ 7,021,121</u>	<u>\$ 85,970,930</u>

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

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2007

Directly Expended by Department	Distributed to Subrecipient	In-Kind Assistance (Note 3)	Total Expended, Distributed, and In-Kind Assistance	Total Expended, Distributed, and In-Kind Assistance for the Two-Year Period
\$ 18,485,902	\$	\$	\$ 18,485,902	\$ 44,355,690
<u>\$ 18,485,902</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,485,902</u>	<u>\$ 44,355,690</u>
\$ 18,027,668	\$	\$ 3,063,291	\$ 21,090,959	\$ 39,865,456
1,839,456		524,702	2,364,158	5,311,943
1,067,421			1,067,421	2,509,047
98,369			98,369	380,216
717,332			717,332	1,413,393
52,420			52,420	104,840
1,839,233		184,455	2,023,688	4,261,990
77,893			77,893	140,101
128,867			128,867	203,525
2,617,165		4,658,808	7,275,973	13,405,546
156,480			156,480	310,471
2,115,353		25,000	2,140,353	3,629,608
3,419,846		102,479	3,522,325	6,953,384
60,001			60,001	120,219
<u>\$ 32,217,504</u>	<u>\$ 0</u>	<u>\$ 8,558,735</u>	<u>\$ 40,776,239</u>	<u>\$ 78,609,739</u>
\$ 1,750,466	\$	\$	\$ 1,750,466	\$ 3,467,625
	1,770,061		1,770,061	2,871,661
<u>\$ 1,750,466</u>	<u>\$ 1,770,061</u>	<u>\$ 0</u>	<u>\$ 3,520,527</u>	<u>\$ 6,339,286</u>
<u>\$ 52,453,872</u>	<u>\$ 1,770,061</u>	<u>\$ 8,558,735</u>	<u>\$ 62,782,668</u>	<u>\$ 129,304,715</u>
\$ 241,303	\$	\$	\$ 241,303	\$ 1,235,202
1,136,347			1,136,347	2,257,337
18,410,823			18,410,823	35,669,444
<u>\$ 19,788,473</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,788,473</u>	<u>\$ 39,161,983</u>
\$ 96,713	\$	\$	\$ 96,713	\$ 96,713
<u>\$ 96,713</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96,713</u>	<u>\$ 96,713</u>
\$ 42,757	\$	\$	\$ 42,757	\$ 118,130
<u>\$ 42,757</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,757</u>	<u>\$ 118,130</u>
<u>\$ 72,381,815</u>	<u>\$ 1,770,061</u>	<u>\$ 8,558,735</u>	<u>\$ 82,710,611</u>	<u>\$ 168,681,541</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule presents the federal grant activity of the Department of Military and Veterans Affairs on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 Correction of Reporting Error

Subsequent to releasing the previously-issued audit report, dated July 10, 2008, additional information came to our attention that the schedule of expenditures of federal awards was materially misstated. The previously-issued schedule of expenditures of federal awards did not identify and separately report \$44.4 million of federal awards expended for the two-year period ended September 30, 2007 from the Military Construction, National Guard Program (CFDA 12.400). Instead, the expenditures were reported as federal awards expended from the National Guard Military Operations and Maintenance (O&M) Projects (CFDA 12.401). The misclassification did not affect the Department's basic financial statements.

Note 3 In-Kind Assistance*

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

Note 4 Medicare and Medicaid Revenue

The Grand Rapids Home for Veterans (GRHV) and the D.J. Jacobetti Home for Veterans received federal Medicare revenue totaling \$1,808,604 in fiscal year 2005-06 and \$2,749,567 in fiscal year 2006-07. GRHV and the D.J. Jacobetti

* See glossary at end of report for definition.

Home for Veterans received federal Medicaid revenue totaling \$296,528 in fiscal year 2005-06 and \$108,641 in fiscal year 2006-07. Medicare and Medicaid revenue is not considered federal assistance, but rather a purchase of services provided by the Homes.

Note 5 Pass-Through Identification Numbers

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

Note 6 Federal Revenue

The dollar amounts of expenditures reported on this schedule are not comparable to the federal revenue as shown on the statement of General Fund revenues and other financing sources for the Department. These differences are attributable to several factors, including capital outlay expenditures recorded in Department of Technology, Management, and Budget accounting records along with corresponding federal revenue and other federal revenue transferred by the Department to other State departments to pay for service provided.

* See glossary at end of report for definition.

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
FAX (517) 334-8079

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

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

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vadnais:

We have audited the financial statements of the Department of Military and Veterans Affairs for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents, and have issued our report thereon dated December 13, 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 Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 and 3 through 6 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the third paragraph of this section, we consider Finding 1 to contain a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other instances of noncompliance as described in the accompanying schedule of findings and questioned costs in Findings 2, 5, and 6.

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, Department 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
December 13, 2011



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

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

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan

Dear General Vadnais:

Compliance

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

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

As described in Findings 8 and 9 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles, period of availability, procurement and suspension and debarment, and reporting that are applicable to its National Guard Military Operations and Maintenance (O&M) Projects and National Guard Civilian Youth Opportunities Programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department of Military and Veterans Affairs complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its major federal programs for the two-year period ended September 30, 2007. 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 7 through 9.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Findings 7 through 9 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described in the preceding paragraph, we consider Findings 8 and 9 to contain material weaknesses.

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

This report is intended solely for the information and use of the Governor, the Legislature, Department 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
December 13, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
12.400	Military Construction, National Guard
12.401	National Guard Military Operations and Maintenance (O&M) Projects
12.404	National Guard Civilian Youth Opportunities

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

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Statements

FINDING (5110801F)

1. Schedule of Expenditures of Federal Awards (SEFA)

The Department of Military and Veterans Affairs' internal control over financial reporting did not ensure that it prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State financial management policies. As a result, the Department's SEFA was materially misstated in our previously-issued report and a risk exists for potential material misstatements in future SEFAs prepared by the Department.

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

* See glossary at end of report for definition.

The Department lacked a formal process, including formal procedures, to help ensure a complete and accurate reporting of federal awards expended on its SEFA. As a result, our review of the Department's SEFA preparation process and its SEFA disclosed:

- a. The Department did not identify and separately report \$44.4 million in federal awards expended from the Military Construction, National Guard Program (*CFDA* 12.400) on its SEFA for the two-year period ended September 30, 2007.

The Department reported the federal awards as expended by the National Guard Military Operations and Maintenance (O&M) Projects (*CFDA* 12.401). The Department relied on information contained within its Military Construction Cooperative Agreements (MCCAs) as provided by the National Guard Bureau (NGB). However, the NGB did not disclose the *CFDA* number or program title in its MCCAs. Formal procedures for determining the appropriate *CFDA* number and program titles when absent from MCCAs would help ensure that the Department correctly identifies and includes all federal awards expended on its SEFA.

- b. The Department did not include \$993,899 in federal awards expended from the Grants to States for Construction of State Home Facilities (*CFDA* 64.005) on the SEFA for the two-year period ended September 30, 2007.

The Department relied on certain accounting information to identify federal awards expended. However, the Department did not capture all necessary information to identify all federal programs. Formal procedures specifying how the Department shall capture all necessary accounting information would help the Department ensure that it reports all federal awards expended on its SEFA.

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

- c. The Department did not include in-kind assistance of \$2,265,209 expended on behalf of the National Guard Military Operations and Maintenance (O&M) Projects (*CFDA* 12.401) on its SEFA for the two-year period ended September 30, 2007.

Formal procedures that include the request of in-kind assistance, the employee position responsible for obtaining the information, and the date or time frame that the information should be requested would help the Department ensure that it gathers and reports the complete amount of in-kind assistance of federal awards on its SEFA.

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

- d. The Department did not have a process of reconciling the SEFA to the Department's accounting records to ensure that the SEFA was accurate and complete. As a result, the Department did not detect misstatements on its SEFA. Our reconciliation of the Department's accounting records to the SEFA disclosed:
 - (1) The Department understated the amounts reported as total expended, distributed, and in-kind assistance for the Veterans State Domiciliary Care (*CFDA* 64.014) by \$84,784 for fiscal year 2005-06.
 - (2) The Department overstated the amounts reported as total expended, distributed, and in-kind assistance for the Veterans State Nursing Home Care (*CFDA* 64.015) by \$84,567 for fiscal year 2005-06.
 - (3) The Department overstated the amounts reported as directly expended for Appendix 2 and understated the amounts reported as directly expended for Appendix 7 for the National Guard Military Operations and Maintenance (O&M) Projects (*CFDA* 12.401) by \$941,486 and \$657,273 for fiscal year 2005-06 and fiscal year 2006-07, respectively.

The State of Michigan Financial Management Guide requires that the SEFA must be reconcilable to the information contained in the Department's financial schedules and accounting records.

- e. The Department did not report all federal programs by the correct federal agency, as either a direct program or a pass-through program, and did not include the pass-through entity on its SEFA.

A formal policy to check federal and interagency grant agreements when preparing the SEFA could help ensure that the Department accurately designates its federal programs as direct or pass-through programs and that it identifies the pass-through entity.

For federal awards received as a subrecipient*, OMB Circular A-133 and the State of Michigan Financial Management Guide require the Department to disclose the name of the pass-through entity and identifying number assigned by the pass-through entity on its SEFA.

- f. The Department did not prepare the SEFA on the modified accrual basis of accounting in accordance with the State of Michigan Financial Management Guide. The Department reported amounts for capital outlay expenditures of the Military Construction, National Guard Program (CFDA 12.400) and the National Guard Military Operations and Maintenance (O&M) Projects (CFDA 12.401) on the cash basis of accounting rather than the modified accrual basis. As a result, the Department overstated total expended, distributed, and in-kind assistance by \$1,402,991 and \$1,512,322 in fiscal year 2005-06 for each of the programs, respectively.

The Department reported capital outlay expenditures related to CFDA 12.401 based on the date it received reimbursement from the federal government, disregarding the actual date that expenditures were incurred. This method does not take into account the current year's payables and inappropriately includes the prior year's payables.

* See glossary at end of report for definition.

The State of Michigan Financial Management Guide stipulates that the amounts reported on the SEFA should be presented on the modified accrual basis of accounting.

After we brought these issues to the Department's attention, it appropriately revised its SEFA for the two-year period ended September 30, 2007 that is presented in this report.

RECOMMENDATION

We recommend that the Department improve its internal control over financial reporting to ensure that the Department prepares its SEFA in accordance with OMB Circular A-133 and State financial management policies.

FINDING (5110802F)

2. Federal Reimbursements

The Department needs to improve its process for requesting federal reimbursement to help ensure timely collection of federal funds. Also, the Department should request all federal funds available to pay for program operations eligible for federal reimbursement. Improvement in the Department's federal reimbursement process would minimize the Department's negative cash position, increase an opportunity for the State to earn interest revenue, and reduce the State's costs associated with its operations of certain federal programs.

The Department's federal reimbursement requests are to be made in accordance with Section 18.1395(1) of the *Michigan Compiled Laws* and Department of Technology, Management, and Budget (DTMB) Administrative Guide procedure 1210.06.

Section 18.1395(1) requires that appropriations financed with multiple funding sources expend federal and restricted funds first. In addition, the DTMB procedure requires the Department to minimize the time elapsing between the transfer of federal funds from the U.S. Department of Treasury and the disbursement of funds by the State. Further, Executive Directive No. 2007-15, issued in March 2007, directed the Department to take all feasible actions to enhance the collection of amounts owed to the State for the remainder of the fiscal year.

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

- a. The Department used a federal reimbursement process that, the Department informed us, generally took 76 days. We do not consider the Department's 76-day federal reimbursement process to be reasonable because it did not closely match the transfer of federal funds from the U.S. Department of Defense with the disbursement of State funds. Many other State departments with large federal programs operate under federal reimbursement time frames of 1 to 7 days. The Department informed us that it was limited in its ability to collect timely reimbursements because the National Guard United States Property and Fiscal Office (USPFO) could only process reimbursement requests once every 30 days. However, the Department, in coordination with the USPFO, should study its process to identify ways to minimize the time elapsing between the use of State funds and the transfer of federal funds.

If the Department had collected federal reimbursement for the Military Construction, National Guard (*CFDA* 12.400), National Guard Military Operations and Maintenance (O&M) Projects (*CFDA* 12.401), and the National Guard Civilian Youth Opportunities (*CFDA* 12.404) operations within 30 days of the date that the State warrant was paid, compared to the date the federal reimbursement was received, the Department could have reduced its average quarterly negative cash position of \$8,325,000 and provided the State with an opportunity to earn an estimated \$519,000 and \$345,000 in interest revenue in fiscal year 2005-06 and fiscal year 2006-07, respectively. A negative cash position occurs during the time period when a State warrant is paid (State funds are used) and the Department has not collected federal reimbursement for federal program costs.

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

Our analysis identified that if the Department would have followed its 76-day process, it would have reduced its average quarterly negative cash position by \$1,834,000 and provided the State with the opportunity to earn an estimated \$252,000 and \$84,000 in interest revenue in fiscal year 2005-06 and fiscal year 2006-07, respectively.

- c. The Department did not request federal reimbursement of available funds for operations related to the Military Construction, Nation Guard Program and the National Guard Civilian Youth Opportunities Program. The Department used general purpose appropriations instead of using available federal funds in the amounts of \$98,667 and \$12,746 for fiscal year 2005-06 and fiscal year 2006-07, respectively (see Finding 7, part a. and Finding 9, part a.(2)).

RECOMMENDATIONS

We recommend that the Department improve its process for requesting federal reimbursement to help ensure timely collection of federal funds.

We also recommend that the Department request all federal funds available to pay for program operations eligible for federal reimbursement.

FINDING (5110803F)

3. Internal Control Over Accounting Transaction Processing

The Department did not always separate the initiation and release of accounting transaction functions and did not have compensating controls for the lack of separation of duties. This increases the risk that improper or erroneous transactions could be processed without detection or correction in a timely manner.

We identified four individuals within the Department who both initiated and released over 1,300 accounting transactions related to 317 documents having a total dollar value of \$1.3 million during our audit period. One of the four individuals we identified was responsible for processing most of these transactions. The Department informed us that it was necessary, in some instances, to have one individual initiate and release transactions because of limited personnel resources.

Although we noted no impropriety in the 1,300 transactions, the Department did not have compensating controls, such as monitoring those transactions that were both initiated and released by the same individual or requiring a review of the transaction by an independent individual before the transaction was released. Without compensating controls, the Department lacks assurance regarding the propriety of those accounting transactions initiated and released by the same person.

The State of Michigan Financial Management Guide, Chapter 4, Section 400 requires the Department to implement compensating controls to mitigate the risk associated with a single user having the ability to process transactions.

RECOMMENDATION

We recommend that the Department separate the initiation and release of accounting transaction functions or develop and implement compensating controls for the lack of separation of duties.

FINDING (5110804F)

4. Internal Control Over Food Purchases and Receipt

The Department did not have sufficient internal control over the purchase and receipt of food items at its Grand Rapids Home for Veterans (GRHV). As a result, the Department did not ensure that only authorized food purchases were ordered and that food purchases were received in the quantity ordered, received in good condition, and adequately safeguarded.

We reviewed 45 GRHV food service shipping invoices for the months of August 2006, October 2006, and August 2007. We determined that for 19 (42%) of the 45 invoices, GRHV did not document on the shipping invoice, or other Department specified forms, specific information regarding the receipt of the food items. For example, GRHV did not document who received the shipment, when the shipment was received, whether all items ordered were received, or if the items received were in good condition.

During the two-year period ended September 30, 2007, GRHV purchased \$3.1 million of food related items from its food vendor. Without sufficient policies and procedures regulating the purchase, receipt, and use of food items at GRHV, the

Department lacks control over its food inventory. This situation could result in the State's limited resources being used inappropriately.

RECOMMENDATION

We recommend that the Department implement sufficient internal control over the purchase and receipt of food items.

FINDING (5110805F)

5. Internal Control Over Records Retention

The Department did not have internal control to ensure that it maintained and safeguarded its hard copy accounting records. As a result, GRHV's hard copy accounting records related to fiscal years 2003-04 and 2004-05 were not maintained and safeguarded. Expenditures incurred by GRHV were approximately 40% of the Department's expenditures annually.

Maintaining and safeguarding hard copy accounting records is essential to ensure the integrity of the State's financial reporting by providing adequate supporting documentation. Without such supporting documentation, subsequent reviewers of the State's financial transactions may lack the information necessary to determine the propriety of individual transactions.

Section 287, Act 431, P.A. 1984, established the records management program for the State. This program is responsible for the creation, retention, maintenance, preservation, and disposition of the records of the State. The records retention schedule established by the records management program requires the retention of hard copy accounting records for a minimum of five years.

GRHV management told us that it believed these hard copy accounting records were inadvertently sent to a document destruction firm in July 2007. Control procedures, including requiring management's written approval authorizing the movement of records, would help to ensure that accounting records are not lost or destroyed before the proper time. We could not validate that the accounting records were destroyed.

RECOMMENDATION

We recommend that the Department design and implement internal control to ensure that it maintains and safeguards its hard copy accounting records.

FINDING (5110806F)

6. Internal Control Over Procurement

The Department's internal control did not ensure that it complied with State procurement policies when purchasing some services. This finding is included in Section III of the schedule of findings and questioned costs (5110808F).

The status of findings related to the financial statements 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.

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.

* See glossary at end of report for definition.

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 (5110807F)

7. Military Construction, National Guard, CFDA 12.400

U.S. Department of Defense	CFDA 12.400: Military Construction, National Guard	Known Questioned Costs by Military Construction Cooperative Agreement (MCCA)
MCCA Number:	MCCA Date:	
DAHA20-02-2-2001	February 20, 2002	
DAHA20-03-2-2002	February 3, 2004	\$ (63,062)
DAHA20-01-2-2003	November 27, 2001	
DAHA20-03-2-2001	April 9, 2003	
W912JB-04-2-2001	September 22, 2004	920,149
W912JB-04-2-2002	September 22, 2004	(871)
W912JB-04-2-2003	September 22, 2004	
W912JB-05-2-2001	March 3, 2005	
W912JB-06-2-2001	March 16, 2006	
		Net Known Questioned Costs: \$ 856,216

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

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

Federal expenditures for the MILCON, National Guard Program totaled \$44.4 million for the two-year period ended September 30, 2007. We identified net known questioned costs totaling \$856,216 and known and likely questioned costs totaling \$1,171,149.

Our exceptions for the MILCON, National Guard Program, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Department did not request federal reimbursement of available funds for operations related to the MILCON, National Guard Program. As a result, we identified negative known questioned costs totaling \$63,933.

The Department used general purpose appropriations instead of using available federal funds in the amount of \$63,062 in fiscal year 2005-06 (see Finding 2, part c.). Also, the Department erroneously requested and received federal reimbursement for construction expenditures from the National Guard Military Operations and Maintenance (O&M) Projects in the amount of \$871 in fiscal year 2006-07.

b. Period of Availability

The Department did not liquidate all payments or reimbursements in a timely manner for or obtain the necessary approvals for extensions to MILCON projects. In addition, the Department did not maintain required documentation for all MILCON projects. As a result, we identified known questioned costs totaling \$920,149 because of this technical violation of period of availability requirements.

During fiscal years 2001-02, 2002-03, and 2003-04, the federal NGB and the State of Michigan entered into 6 MCCAs for various construction projects. The Department completed all 6 of these projects before or during our audit period. For those projects completed before our audit period, the Department made payments to contractors and requested MILCON reimbursement during our audit period.

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

The Department did not deliver to the NGB full and final accountings liquidating all payments or reimbursements within 90 days of the final completion for the 6 projects or obtain the NGB's approval to extend the 90-day limit. Our audit procedures identified 2 reimbursements totaling \$920,149 for which the Department's request was after the 90-day limit, with no change orders or requests for extensions.

We identified another 25 reimbursements for which the Department's request was after the 90-day limit, and 22 of the 25 reimbursements were over 180 days from the final completion of the project. However, we did not determine if change orders or requests for extensions existed for any of these 25 reimbursements. In addition, the Department did not maintain NGB form 593R for both half and final completion for 1 of the 6 projects. As a result, we identified likely questioned costs totaling \$314,933.

RECOMMENDATION

We recommend that the Department strengthen its internal control over the MILCON, National Guard Program to ensure compliance with federal laws and regulations and cooperative agreement requirements regarding allowable costs/cost principles and period of availability.

FINDING (5110808F)

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

U.S. Department of Defense	CFDA 12.401: National Guard Military Operations and Maintenance (O&M) Projects	Known Questioned Costs by Appendix
Master Cooperative Agreement: W912JB-04-2-1000	Appendix 1 Army National Guard Real Property Operations and Maintenance	\$ 871
	Appendix 2 Army National Guard Environmental Programs Resources Management	56,793
	Appendix 3 Army National Guard Security Guard Activities	
	Appendix 4 Army National Guard Electronic Security System Operations & Maintenance	157,247
	Appendix 5 Army National Guard Telecommunications	(829)
	Appendix 6 Army National Guard Aviation Training Base Operations	104,840
	Appendix 7 Army National Guard Sustainable Range Program	101,695
	Appendix 10 Army National Guard Antiterrorism Program Manager Activities	
	Appendix 14 Office of the Chief - Administrative Services Activities	116,909
	Appendix 21 Air National Guard Facilities Operations and Maintenance Activities	
	Appendix 22 Air National Guard Environmental Program Management	34,172
	Appendix 23 Air National Guard Security Guard Services	151,055
Appendix 24 Air National Guard Fire Protection Activities	58,158	
	Appendix 40 Army National Guard Distance Learning Project	(3)
		Net Known Questioned Costs: \$780,908

The Department's internal control over the O&M Projects Program did not ensure its compliance with federal laws and regulations and cooperative agreements regarding activities allowed or unallowed, allowable costs/cost principles, period of availability, and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control over activities allowed or unallowed and allowable costs/cost principles, period of availability, and procurement and suspension and debarment. Our review also disclosed material noncompliance with federal laws and regulations and cooperative agreements regarding period of availability and procurement and suspension and debarment. We identified known questioned costs totaling \$780,908 and known and likely questioned costs totaling \$3,139,591 and issued a qualified opinion on the O&M Projects Program as a whole.

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

Federal expenditures for the O&M Projects Program totaled \$78.6 million for the two-year period ended September 30, 2007.

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

a. Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The Department's internal control did not ensure compliance with federal laws and regulations and cooperative agreements regarding activities allowed or unallowed and allowable costs/cost principles. As a result, we questioned costs totaling \$623,152. Our review disclosed:

- (1) The Department's internal control did not prevent the Department from incurring expenditures totaling \$622,281 and requesting reimbursement in excess of the maximum funding limitations specified by the Master Cooperative Agreement (MCA) and appendixes.

On October 1, 2003, the NGB and the Department entered into a five-year MCA for federal reimbursement of operations and maintenance costs for the State's military facilities. MCA Section 401 states that the

maximum funding limitation amount for the NGB for any fiscal year is specified in the appendixes. National Guard Regulation 5-1 specifies that the amount stated in the MCA/appendix column entitled "Maximum Funding Limitation," which is the allotment applied to the MCA/appendix, sets the NGB's maximum funding liability. In addition, MCA Section 403 requires the Department to submit a budget each fiscal year for each activity listed in an appendix for NGB approval. The budgets shall be approved before the execution of the MCA or funding of the MCA in any fiscal year. The total amount of each budget shall be the maximum amount for which the NGB is obligated to reimburse the Department for performance of the MCA.

To determine the Department's compliance with the maximum funding limitation, we compared the Department's O&M Projects Program expenditures to the approved budgets or final modified budgets for the respective appendixes. We determined that for several appendixes, the Department requested and received reimbursement that exceeded amounts authorized in the budgets or modification budgets.

The following table depicts the amounts by appendix where the Department exceeded the maximum funding limitation of the NGB:

Appendix	Fiscal Year 2006-07			Fiscal Year 2005-06		
	Budget	Expenditures	Exceeded Amount	Budget	Expenditures	Exceeded Amount
4	\$	\$	\$	\$ 124,600	\$ 281,847	\$ 157,247
6		52,420	52,420		52,420	52,420
14	44,542	128,867	84,325	42,074	74,658	32,584
22	144,300	156,480	12,180	132,000	153,992	21,992
23				1,338,200	1,489,255	151,055
24				3,373,000	3,431,058	58,058
Total	\$188,842	\$337,767	\$148,925	\$5,009,874	\$ 5,483,230	\$ 473,356

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

Title 2, Part 225 of the *Code of Federal Regulations (CFR)* (OMB Circular A-87*, *Cost Principles for State, Local, and Indian Tribal Governments*) states that, to be allowable under federal awards, costs must conform to any limitations or exclusions set forth in federal laws and regulations and the terms and conditions of the federal awards. We identified known questioned costs totaling \$622,281.

- (2) The Department's internal control did not ensure that costs were charged to the correct federal program. This action resulted in the Department requesting and receiving federal reimbursement of \$871 from the O&M Projects Program for construction expenditures that related to the Military Construction, National Guard Program (CFDA 12.400). We identified known questioned costs totaling \$871 (see Finding 7, part a.).

b. Period of Availability

The Department's internal control did not ensure that it complied with federal laws and regulations and cooperative agreement requirements regarding final accounting and notification of outstanding obligations.

O&M Projects Program Cooperative Agreements for each appendix are funded with one-year appropriations (federal fiscal year). National Guard Regulation 5-1 and Section 306 of the October 1, 2003 MCA require that within 90 days after the end of the federal fiscal year or upon termination of the cooperative agreement, whichever is earlier, the Department shall promptly deliver to the United States Property Fiscal Officer, as a representative of the NGB, a final accounting of all funding and disbursements under the cooperative agreement for the federal fiscal year. In addition, the regulation and MCA require that if unliquidated claims and undisbursed obligations arising from the Department's performance of the cooperative agreement will remain 90 days after the close of the fiscal year, the Department shall provide to the United States Property Fiscal Officer a detailed listing of uncleared obligations and a projected timetable for their liquidation and disbursement no later than December 31. Costs not disclosed by the Department to the United States Property Fiscal Officer shall not be eligible for federal reimbursement.

* See glossary at end of report for definition.

We determined that the Department did not complete or maintain documentation of a final accounting of funding and disbursements for 13 of the 14 appendixes in both fiscal years 2005-06 and 2006-07. In addition, the Department did not provide to the United States Property Fiscal Officer detailed listings of uncleared obligations and a projected timetable for liquidation for the expenditures made and reimbursements requested after 90 days of the close of these fiscal years. We identified expenditures incurred during our audit period for cooperative agreements of fiscal years 2002-03, 2003-04, 2004-05 and 2005-06 for which the Department did not provide a detailed listing to the United States Property Fiscal Officer. After we brought this to the attention of the Department, the Department requested, and obtained from the United States Property Fiscal Officer, extensions for appendixes 1 and 2 for fiscal years 2005-06 and 2006-07. Because the Department obtained extensions from the United States Property Fiscal Officer, we did not question costs of \$6,587,777 relating to appendix 1 and \$1,019,523 relating to appendix 2. Also, the Department submitted the final accountings for appendixes 1 and 2 for fiscal year 2005-06. However, the Department did not obtain extensions for appendixes 5, 24, and 40 for fiscal year 2005-06. We identified known negative questioned costs totaling \$732.

c. Procurement and Suspension and Debarment

The Department's internal control did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment. As a result, we identified known questioned costs totaling \$158,487 and known and likely questioned costs totaling \$2,517,170. Our review disclosed:

- (1) The Department did not obtain State Administrative Board approval and did not competitively bid projects. Our review of 24 sampled expenditures disclosed 3 related to memorandums of understanding (MOUs) administered by the Department's Environmental Division. All 3 of the MOUs were in excess of \$25,000 and our 3 sampled MOU expenditures totaled \$158,487. We questioned these costs.

National Guard Regulation 5-1 requires the Department to comply with federal regulation 32 *CFR* 33 for procurements. Federal regulation 32 *CFR* 33 requires the Department to follow the same policies and procedures it uses for procurements from its nonfederal funds (State

procurement policies and procedures). State procurement policy requires contracts in excess of \$25,000 to be approved by the State Administrative Board and to be competitively bid. The Department's purchasing procedures require purchases to be processed through its Office of Purchasing. However, prior to April 2007, some MOUs in excess of \$25,000 were processed directly by the Environmental Division and were not competitively bid or submitted to the State Administrative Board for approval.

We identified additional MOUs administered by the Department's Environmental Division totaling \$1,601,465, and \$757,218 in fiscal year 2005-06 and fiscal year 2006-07, respectively. The Department informed us that these MOUs most likely were directly presented by the Environmental Division and not competitively bid or submitted to the State Administrative Board for approval. Thus, we identified likely questioned costs totaling \$2,358,683.

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

We reviewed the federal Excluded Parties List System and verified that none of the vendors in our sample of O&M Projects Program expenditures were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs for this item. However, without a formal process to verify the status of vendors, a risk exists that other, or future, vendors could be suspended or debarred.

National Guard Regulation 5-1 specifies that recipients shall not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or

ineligible for participation in federal assistance programs under Executive Order No. 12549.

RECOMMENDATION

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

FINDING (5110809F)

9. National Guard Civilian Youth Opportunities, CFDA 12.404

U.S. Department of Defense	CFDA 12.404: National Guard Civilian Youth Opportunities
Award Number: ChalleNGe: FY05 Michigan ChalleNGe Youth Program FY06 Michigan ChalleNGe Youth Program FY07 Michigan ChalleNGe Youth Program	Award Period: 07/09/2005 - 07/08/2006 07/09/2006 - 07/08/2007 07/09/2007 - 12/31/2007
Starbase: Michigan FY06 Starbase Program Michigan FY07 Starbase Program	10/01/2005 - 9/30/2006 10/01/2006 - 9/30/2007
	Net Known Questioned Costs: (\$14,016)

The Department's internal control over the National Guard Civilian Youth Opportunities Program did not ensure its compliance with federal laws and regulations and cooperative agreements regarding allowable costs/cost principles, period of availability, reporting, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations and cooperative agreements regarding allowable costs/cost principles and reporting. As a result, we identified net negative known questioned costs totaling \$14,016 and known and likely questioned costs totaling \$1,086,365 and issued a qualified opinion on compliance with federal laws and regulations and cooperative agreements for the National Guard Civilian Youth Opportunities Program.

Noncompliance with federal program requirements and cooperative agreements could result in sanctions, disallowances, and/or future reductions of National Guard Civilian Youth Opportunities Program awards.

The National Guard Civilian Youth Opportunities Program in Michigan comprises two separate subprograms: ChalleNGe and Starbase. Federal expenditures for the National Guard Civilian Youth Opportunities Program totaled \$6.3 million for the two-year period ended September 30, 2007. The Department distributed \$1,101,600 and \$1,770,061 in fiscal year 2005-06 and fiscal year 2006-07, respectively, to Starbase as a subrecipient of the Program. The ChalleNGe Program reported a total of \$3,467,625 in federal expenditures during our audit period, of which \$2,326,917 (67%) related to payroll costs.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Department's internal control did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we identified net negative known questioned costs totaling \$35,708 and net known and likely questioned costs totaling \$1,064,673. Our review disclosed:

- (1) The Department's internal control did not ensure that it properly documented time reporting in compliance with the allowable costs/cost principles requirements of the ChalleNGe Program. We identified known questioned costs totaling \$24,186 and known and likely questioned costs totaling \$1,124,567.

Appendix B, section 8(h)(3) of federal regulation 2 *CFR* 225 states that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or the supervisory official having firsthand knowledge of the work performed by the employee.

Cadre staff* members of the ChalleNGe Program charge 100% of their time on the federal program and certify their time worked through their signature each pay period using manual time sheets. The members' supervisor also certifies the cadre staff members' time worked on the federal program through signature approval of the manual time sheets. The Department uses the biweekly manual time sheet certification process instead of a semiannual certification process. We reviewed 19 manual time sheets for 19 cadre staff members and noted that 17 (89%) cadre staff members signed and submitted their time sheets prior to the last day they worked during the pay period. For example, we noted that cadre staff members signed 14 (82%) of their 17 time sheets 3 or more days prior to the last day worked.

In addition, the supervisory approval signature was also dated prior to the last day the cadre staff member worked during the pay period for the same 17 time sheets with 12 (71%) of the 17 time sheets signed by the cadre staff supervisor 3 or more days prior to the last day worked. In one case, the time sheet was signed and dated by the employee and the supervisor on the Tuesday of the week prior to the beginning of the pay period we reviewed. We also noted that the supervisor's signature for 5 of the 19 time sheets was a photocopy rather than an original signature from the supervisor.

We determined that the Department had no policies or procedures for the ChalleNGe Program regarding time frames for when time sheets were to be signed by cadre staff members or their supervisor as part of the certification process. Because of the internal control deficiency noted regarding the signing and approval of time sheets prior to the last day worked, we were unable to rely on the signed time sheets to meet the periodic certification requirement for all cadre staff members.

- (2) The Department did not request federal reimbursement of available funds for operations related to the ChalleNGe Program. We identified negative known questioned costs totaling \$48,351.

* See glossary at end of report for definition.

The Department used general purpose appropriations instead of using available federal funds in the amounts of \$35,605 and \$12,746 for fiscal year 2005-06 and fiscal year 2006-07, respectively (see Finding 2, part c.).

- (3) The Department did not maintain documentation to support two expenditure transactions of the ChalleNGe Program. We identified negative known questioned costs totaling \$11,543. Appendix A of OMB Circular A-87 (federal regulation 2 *CFR* 225) states that costs must be necessary and reasonable for the performance and administration of federal awards. Without supporting documentation, we could not determine that expenditure transactions were necessary and reasonable for the performance of the program.

b. Period of Availability

The Department's internal control did not ensure that it claimed and received reimbursement for program expenditures in compliance with the period of availability requirements of the ChalleNGe Program. We identified known questioned costs of \$21,692.

Our review of 49 ChalleNGe Program expenditures noted that the Department claimed and received reimbursement for 8 (16%) prior year expenditures from awards issued in the following federal fiscal year.

Master Youth Programs Cooperative Agreements (MYPCAs) are funded with one-year appropriations (federal fiscal year). National Guard Regulation 5-1 does not allow costs contrary to any program restrictions, limitations, or instructions. Also, section 405(b) of the May 21, 1999 MYPCA, as modified, states that allowable costs must be incurred in the funding period specified in the MYPCA.

c. Reporting

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

The MYPCA requires the Department to request periodic reimbursement by submitting a certified statement, no less than once a month, itemizing the

amount of funds expended during the preceding month. The MYPCA also requires a final accounting of all funding and disbursements within 90 days after the end of the grant award period or upon termination of the MYPCA. Our review disclosed:

- (1) The Department submitted reimbursement requests late for 26 (84%) of the 31 requests it submitted during our audit period. The Department submitted the reimbursement requests between 1 and 77 days late, averaging 46 days late. Nineteen (61%) of the requests were submitted 10 or more days late.
- (2) The Department submitted 1 of the 2 required final accounting memorandums 73 days after the 90-day due date.

We determined that the Department did not have policies or procedures regarding time frames for the preparation and submission of ChalleNGe Program monthly reimbursement requests and annual closeout memorandums.

d. Subrecipient Monitoring

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

We determined that the Department did not have policies or procedures regarding the documentation of its subrecipient monitoring for the Starbase Program. Our review disclosed that the Department did not document its review of the Starbase Program's Single Audit reports. Documentation of monitoring efforts is critical to show compliance with OMB Circular A-133 compliance requirements regarding the Department's responsibilities for subrecipient monitoring.

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

RECOMMENDATION

We recommend that the Department implement effective internal control to ensure that the National Guard Civilian Youth Opportunities Program complies with federal laws and regulations and cooperative agreements regarding allowable costs/cost principles, period of availability, reporting, and subrecipient monitoring.

OTHER SCHEDULES

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
Summary Schedule of Prior Audit Findings
As of December 13, 2011

PRIOR AUDIT FINDINGS RELATED TO THE PRIOR AUDIT FINANCIAL SCHEDULES

Audit Findings That Are No Longer Applicable:

Audit Period: October 1, 2003 through September 30, 2005
Finding Number: 510601
Finding Title: Expenditures and Federal Revenue Reporting

Finding: The Department of Military and Veterans Affairs did not comply with State accounting policies regarding the recording of expenditures and federal revenue for funds passed through from other State departments.

Agency Comments: The Department has chosen to follow the Office of Financial Management's (OFM's) position paper and process expenditure credits to the Michigan Department of State Police (MSP) for amounts expended by the Department for the U.S. Department of Homeland Security grants. It is OFM's position that the agency responsible for determining compliance with federal regulations is MSP and that MSP should continue to record the expenditure and related revenue and an expenditure credit should be given to the subgrantee (the Department). As a result, the Department did not report expenditures on its schedule of expenditures of federal awards.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards in the prior Single Audit.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Corrective Action Plan
As of December 21, 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 5110801F
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Department of Military and Veterans Affairs agrees with the recommendation and will strengthen procedures to ensure that future SEFA reports are accurate. The Department has been consistent in its methodology in reporting for capital outlay expenditures and revenue. The Department was following what it thought was the acceptable practice for reporting capital outlay projects based on a communication received from an Office of the Auditor General auditor.

Planned Corrective Action: The Department has taken steps to ensure that all federal awards are properly identified and accounted for on the SEFA and has established procedures to ensure that the Department prepares its SEFA in accordance with U.S. Office of Management and Budget Circular A-133 and State financial management policies. The Department prepared the final fiscal years 2005-06 and 2006-07 SEFAs on the modified accrual basis of accounting.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

Finding Number: 5110802F
Finding Title: Federal Reimbursements

Management Views: The Department agrees with the recommendation to improve its process for requesting federal reimbursement to help ensure timely collection of federal funds.

The Department agrees that it should request all federal funds available to pay for program operations eligible for federal reimbursement.

The Department disagrees that the State lost an opportunity to earn interest of \$864,000.

The Department also questions the average quarterly negative cash position of \$8,325,000.

Planned Corrective Action: As a result of Executive Directive No. 2007-15, the Department requested and received advance payments for Army National Guard program appendices. These advances were for salary and wage only. The Department will continue to use the reimbursement process and will seek monthly advances for all appendices of the Master Cooperative Agreement. The Department believes that receiving advances along with the monthly reimbursements help ensure timely collection of federal funds and compliance with State financial management policies.

The Department will work within the established ChalleNGe budget reporting system and the Data Management and Reporting System and will work to ensure that as much federal allotment as possible granted to the State of Michigan is captured and spent.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

Finding Number: 5110803F
Finding Title: Internal Control Over Accounting Transaction Processing

Management Views: The Department recognizes the potential problem resulting from a person who acts by initiating and releasing the same payment document. The Department has reaffirmed with staff the importance of separation of duties and how segregation of these two functions helps guard against unintentional errors.

The Department is in agreement with the audit recommendation and will work within the Department to strengthen the internal control over the entering and releasing of payment documents.

Planned Corrective Action: The involvement of additional staff in the entering and releasing process will eliminate instances of a single employee both entering and releasing vouchers for payment. If an emergency situation should arise where an individual employee must enter and release a payment document, a subsequent separate review and verification process will take place.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

Finding Number: 5110804F
Finding Title: Internal Control Over Food Purchases and Receipt

Management Views: The Department agrees with the audit recommendation.

Planned Corrective Action: The Department is strengthening its internal control process to ensure that all necessary documentation relative to the purchase, receipt, and authorization of food items is in place.

Anticipated Completion Date: Completed

Responsible Individual: Frank Snarski, Grand Rapids Home for Veterans (GRHV) Administrator

Finding Number: 5110805F
Finding Title: Internal Control Over Records Retention

Management Views: The Department is in agreement with the audit recommendation to review the existing internal control for compliance to ensure that it maintains and safeguards its hard copy accounting records.

Planned Corrective Action: The Department has developed and implemented an internal control policy and procedure to ensure that the hard copy accounting records are stored and destroyed in compliance with its State of Michigan Records Retention and Disposal Schedule.

Anticipated Completion Date: Completed

Responsible Individual: Frank Snarski, GRHV Administrator

Finding Number: 5110806F
Finding Title: Internal Control Over Procurement

Management Views:

A process has always been in place to verify if a contractor has been debarred. However, it was never noted on the Department's procurement request form and the Office of Financial Services' purchasing and contracts section did not have a written policy as the Department has always followed the Department of Technology, Management, and Budget's (DTMB's) Debarment Policy. The Department will begin to document that debarment has been verified on all procurement request forms (form 6-1) received and processed by the purchasing and contracts section. There are several processes that the purchasing and contracts section follows regarding debarment: Section 18.1264 of the *Michigan Compiled Laws* (the law regarding debarment); Executive Order No. 2003-1, the "Procurement of Goods and Services from Vendors in Compliance with State and Federal Law"; DTMB Purchasing Operations' Debarment Policy dated October 21, 2003; and Section 4, Certification and Representations of the contracting templates for the competitive bidding process of services or commodities (specifically, Section 4.030, which refers to Disclosures). Bidders are required to disclose in their competitive bids if they have ever been debarred.

Planned Corrective Action:

With the recent rollout and implementation of the State's on-line bidding system (www.Bid4Michigan.com) and the requirement effective December 1, 2009 for all bids to be formally placed for bid on this Web site, any vendors who are formally debarred will "not" be able to submit bids through this Web site.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 5110807F

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

Management Views: The Department partially agrees with the finding. The Department agrees that it must comply with period of availability requirements to ensure a timely full and final accounting of the Military Construction Cooperative Agreements (MCCAs). The Department believes the responsibility for compliance is jointly held with the United States Property and Fiscal Office (USPFO) and the Department. The completed National Guard Bureau project inspection report (form 593-R), historically, was not provided to the accounting section staff so that they could take the necessary steps to promptly deliver a full and final accounting of payments and reimbursements under the MCCA or request extension of the 90-day limit.

The Department does not agree that it requested and received reimbursements it was not eligible to receive. All reimbursement requests contained proper documentation and were certified by the chief of the Construction and Facilities Management Office (CFMO), a federal program manager, as allowable under the MCCA. According to the CFMO, submission of form 593-R does not mean the project is complete and the 90-day limit clock has started. As a general rule, in accordance with the front end of State of Michigan Contract Document MICHSPEC 01 7700-1 through 01 7839-3, closeout procedures do not place a

time line for the general contractor and the architect/engineer of record to provide all closeout punch list items, final payments, arrival of furnishings, Operations and Maintenance manuals, warranty documents, and "as built" drawings. Many contracts drag out due to claims against the general contractor or claims against the State of Michigan or the federal government, which prevents a timely contract closeout.

The Department is constantly working with the USPFO and other federal program managers to help ensure that all parties understand their duties and responsibilities regarding compliance with final accounting memorandums closing out the grant award year.

Planned Corrective Action: A collaborative effort with the federal awarding agency (the USPFO), the federal program managers, and the Department has been initiated, and the Department has developed a process to address the finding.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

Finding Number: 5110808F
Finding Title: National Guard Military Operations and Maintenance (O&M) Projects, *CFDA* 12.401

Management Views: The Department concurs with the recommendation.

The Department disagrees that it requested and received reimbursements from the O&M program that it was not eligible to receive. It has been the accepted practice of the Department not to provide a listing of

uncleared obligations to the USPFO and the accepted practice of the USPFO to reimburse the Department without receiving a listing of uncleared obligations. The expenditures of the Department were the result of valid contractual obligations executed by the federal program manager authorized to incur the obligation. The expenditures were reviewed and approved by the federal program manager and the USPFO as allowable expenditures.

Planned Corrective Action: A collaborative effort with the federal awarding agency (the USPFO), the federal program managers, and the Department has been initiated, and the Department has developed a process to address the finding. The Department is constantly working with the USPFO and other federal program managers to help ensure that all parties understand their duties and responsibilities regarding compliance with final accounting memorandums closing out the grant award year.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

Finding Number: 5110809F
Finding Title: National Guard Civilian Youth Opportunities,
CFDA 12.404

Management Views: The Department recognizes and agrees with the recommendation that there needs to be effective internal control to ensure that the ChalleNGe Program complies with federal laws and regulations regarding allowable costs/cost principles and reporting. However, the Department disagrees with some of the methodology and conclusions arrived at by the audit staff. The Department does not believe that there is

material weakness in these issues nor does it believe that these issues rise to the level of a qualified opinion. The Department's response to the finding exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Department agrees that, for several of the time sheets, the cadre supervisor's signature on the time sheet was a photocopy rather than an original signature. The ChalleNGe Program has taken appropriate steps to ensure that this never occurs again. The cadre supervisor did review all time sheets prior to submission to the timekeeper regardless of whether or not his signature was a photocopy.

b. Period of Availability

The Department agrees with the recommendation.

c. Reporting

The Department agrees that the requests for reimbursement for the ChalleNGe Program need to be submitted in a more timely fashion in accordance with the Master Youth Programs Cooperative Agreement. The Department also agrees that final accounting memorandums closing out the grant award year need to be submitted within established due dates.

d. Subrecipient Monitoring

The Department agrees with the recommendation.

Planned Corrective Action:

The Department has obtained the semiannual certifications for the audit period. The certifications have been signed by the supervisory official having

firsthand knowledge of the work performed by the cadre staff. ChalleNGe employees no longer enter their time using manual time sheets; they now use the State of Michigan's Data Collection and Distribution System to record their hours worked.

The Department has updated its desk operating procedures to ensure compliance with monthly reporting requirements and period of availability requirements for the ChalleNGe Program.

Regarding subrecipient monitoring, the Department has established a procedure to document its annual on-site visits and its monthly review of STARBASE reimbursement requests. The Department has also documented its monitoring process to ensure review of the required audit reports. Discrepancies will be investigated and communication with the subrecipient will be established to reconcile the discrepancy.

Anticipated Completion Date: Completed

Responsible Individual: Joel A. Wortley, Senior Deputy Director

GLOSSARY

Glossary of Acronyms and Terms

cadre staff	ChalleNGe Program staff who carry out a variety of tasks providing direction to at-risk youth. Duties include providing direction to cadets in the areas of personal hygiene; uniform care and maintenance; and compliance with program policies, rules, and regulations.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
CFMO	Construction and Facilities Management Office.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DTMB	Department of Technology, Management, and Budget.
form 593R	project inspection report.
GAAP	accounting principles generally accepted in the United States of America.
GRHV	Grand Rapids Home for Veterans.

in-kind assistance	The value of a noncash contribution by a nonfederal third party without charge to the grantee or a cost-type contractor of supplies, equipment, goods, property, and services, directly benefiting and specifically identifiable to a federal program.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.

material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MCA	Master Cooperative Agreement.
MCCA	Military Construction Cooperative Agreement.
MILCON	Military Construction.
MOU	memorandum of understanding.
MSP	Michigan Department of State Police.
MYPCA	Master Youth Programs Cooperative Agreement.
NGB	National Guard Bureau.
OFM	Office of Financial Management.
O&M Projects	National Guard Military Operations and Maintenance Projects.
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the <i>Code of Federal Regulations</i> as Title 2, Part 225 (i.e., federal regulation 2 <i>CFR</i> 225).
other noncompliance	Violations of contracts or grant agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control

deficiencies that may be communicated to management in accordance with *Government Auditing Standards*.

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

significant deficiency in internal control over financial reporting

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

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ol style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.
USPFO	United States Property and Fiscal Office.

