

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF CORRECTIONS

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

DEPARTMENT OF CORRECTIONS

INTRODUCTION This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 1995 through September 30, 1997.

AUDIT PURPOSE This financial audit of DOC was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND DOC was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DOC's director is appointed by the Governor and serves as the chief administrative officer. DOC's mission* is to enhance public safety by carrying out the sentences given to convicted adult felons in a humane, cost-effective manner consistent with correctional principles and constitutional standards.

DOC is functionally divided into the Executive Bureau, Administration and Programs Administration, Field Operations Administration, and Correctional Facilities Administration. Responsibilities related to federal grant management are shared by the Bureau of Fiscal

* See glossary on page 53 for definition.

Management, within Administration and Programs Administration, and the units administering the federal grants.

DOC's annual expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund, totaled approximately \$1.3 billion for fiscal years 1996-97 and 1995-96. As of September 30, 1997, DOC had 16,350 employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of DOC's internal control structure^{*}, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DOC's internal control structure disclosed one material weakness^{*}:

- DOC did not accurately report federal grant information in its schedule of federal financial assistance (SFFA). The SFFA presented to us by DOC at the end of our fieldwork contained material misstatements; however, we corrected the noted misstatements to provide a more accurate presentation of the SFFA. (Finding 1)

DOC concurred with the corresponding recommendation and informed us that it has complied by correcting the reporting basis. DOC stated that it had completed the reports on an appropriation year basis rather than on a fiscal year basis. In addition, DOC informed us that program managers will review program titles to ensure accurate reporting.

^{*} See glossary on page 53 for definition.

Also, our assessment indicated that DOC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

In addition, our assessment disclosed three reportable conditions* related to the classification of revenues and expenditures and to federal reporting (Findings 2 through 4).

Audit Objective: To assess DOC's compliance with both State and federal laws and regulations that could have a material effect on either DOC's financial schedules or any of its major federal financial assistance programs.

Conclusion: Our assessment did not disclose any noncompliance with laws and regulations that could have a material effect on DOC's financial schedules. However, our assessment did disclose material noncompliance* with federal laws and regulations pertaining to two major federal assistance programs:

- DOC did not comply with the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) when administering the Adult Education - State Grant Program and Title I - Program for Neglected and Delinquent Children. Noncompliance with the Common Rule provides federal grantor agencies with justification for disallowing program expenditures and for rejecting subsequent requests for federal funds. (Finding 5)

* See glossary on page 53 for definition.

DOC concurred with the corresponding recommendation and will comply with the Common Rule.

Also, our audit disclosed questioned costs* totaling at least \$686,422 and negative questioned costs* totaling \$32,365 for the two-year period ended September 30, 1997. These costs are presented as supplemental information in the schedule of questioned costs.

Audit Objective: To audit DOC's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on DOC's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit does not include the Correctional Industries Revolving Fund, which we audit separately.

Our audit objective for the assessment of the internal control structure included an evaluation of DOC's implementation of the requirements for establishing and

* See glossary on page 53 for definition.

maintaining systems of internal accounting and administrative control as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 5 findings and recommendations. DOC's preliminary response indicated that it concurred with our recommendations and has taken or will take steps to implement the recommendations.

DOC complied with 4 of the 5 recommendations in our prior Single Audit^{*}. One recommendation is repeated in this report.

^{*} See glossary on page 53 for definition.

This page left intentionally blank.

Mr. Kenneth L. McGinnis, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. McGinnis:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the Department of Corrections' financial schedules and notes to the financial schedules; supplemental financial schedules; a schedule of questioned costs, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

DEPARTMENT OF CORRECTIONS

INTRODUCTION

| | <u>Page</u> |
|--|-------------|
| Executive Digest | 1 |
| Report Letter | 7 |
| Description of Agency | 11 |
| Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up | 13 |

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

| | |
|---|----|
| Internal Control Structure | 15 |
| 1. Schedule of Federal Financial Assistance | 15 |
| 2. Classification of Revenue | 18 |
| 3. Classification of Expenditures | 20 |
| 4. Federal Reporting | 21 |
| Compliance With Laws and Regulations | 23 |
| 5. Compliance With Federal Regulations | 24 |
| Financial Accounting and Reporting | 26 |

INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES

| | |
|--|----|
| Independent Auditor's Report on the Internal Control Structure | 27 |
| Independent Auditor's Report on Compliance With Laws and Regulations | 31 |
| Independent Auditor's Report on the Financial Schedules | 34 |
| Department of Corrections Financial Schedules | |

| | |
|--|----|
| Schedule of General Fund Revenue and Operating Transfers | 36 |
| Schedule of General Fund Sources and Disposition of Authorizations | 37 |
| Notes to Financial Schedules | 38 |

Supplemental Financial Schedules

| | |
|--|----|
| Schedule of General Fund Sources and Disposition of Authorizations by Appropriation Unit - Fiscal Year Ended September 30, 1997 | 44 |
| Schedule of General Fund Sources and Disposition of Authorizations by Appropriation Unit - Fiscal Year Ended September 30, 1996 | 46 |
| Schedule of Federal Financial Assistance - Fiscal Year Ended September 30, 1997 | 48 |
| Schedule of Federal Financial Assistance - Fiscal Year Ended September 30, 1996 | 49 |

SUPPLEMENTAL INFORMATION

| | |
|------------------------------|----|
| Schedule of Questioned Costs | 51 |
|------------------------------|----|

GLOSSARY

| | |
|--------------------------------|----|
| Glossary of Acronyms and Terms | 53 |
|--------------------------------|----|

Description of Agency

The Department of Corrections (DOC) was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DOC's director is appointed by the Governor and serves as the chief administrative officer. DOC's mission is to enhance public safety by carrying out the sentences given to convicted adult felons in a humane, cost-effective manner consistent with correctional principles and constitutional standards. The following describes the four organizational units which operate and control various activities within DOC:

1. The Executive Bureau, headed by the executive assistant to the director, supervises the Office of Policy and Hearings and the Public Information and Communications Section and coordinates DOC's legislative liaison activities. The Office of Audit and Internal Affairs performs internal audits and provides local jail and detention facility inspection services.
2. Administration and Programs Administration is responsible for overseeing health care, prison industries, and prisoner programs and for providing DOC's general administrative support services:
 - a. The Bureau of Fiscal Management administers DOC's budget and financial transactions.
 - b. The Office of Program Services administers DOC's education and substance abuse activities.
 - c. The Office of Planning, Research, and Management Information Services engages in planning and research and evaluation and administers the data processing systems.
 - d. The Bureau of Health Care Services coordinates and administers DOC's physical, dental, and mental health programs.
 - e. The Bureau of Prison Industries operates manufacturing plants, service programs, and farm operations.

3. Field Operations Administration is responsible for adult felony probation services and parole supervision:
 - a. The Office of Community Residential Programs and Electronic Monitoring Systems administers DOC's community residence and electronic monitoring (tether) programs.
 - b. The Office of Field Programs administers DOC's activities related to parole violation and interstate compacts.
 - c. The Parole Board determines parole eligibility, releases prisoners on parole, and returns violators of parole conditions to prison. The Board's members are appointed by the director.

4. Correctional Facilities Administration administers and operates all State-owned prisons and camps, except for the Office of Special Alternative Incarceration and the Community Corrections Centers.

Responsibilities related to federal grant management are shared by the Bureau of Fiscal Management and the units administering the federal grants.

DOC's annual expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund, totaled approximately \$1.3 billion for fiscal years 1996-97 and 1995-96. As of September 30, 1997, DOC had 16,350 employees.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objective

Our financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) had the following objectives:

1. To assess the adequacy of DOC's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess DOC's compliance with both State and federal laws and regulations that could have a material effect on either DOC's financial schedules or any of its major federal financial assistance programs.
3. To audit DOC's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Our audit objective for the assessment of the internal control structure included an evaluation of DOC's implementation of the requirements for establishing and maintaining systems of internal accounting and administrative control, as set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws*.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit does not include the Correctional Industries Revolving Fund, which we audit separately.

We considered DOC's internal control structure policies and procedures for its federal financial assistance programs and assessed DOC's compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the prior audit findings and questioned costs. DOC's major programs are identified on the schedules of federal financial assistance.

We did not report on compliance for nonmajor federal financial assistance programs because no transactions for nonmajor federal financial assistance programs were selected in connection with our audit of the financial schedules and our assessment of the internal control structure.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 5 findings and recommendations. DOC's preliminary response indicated that it concurred with our recommendations and has taken or will take steps to implement the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DOC to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In addition, the Single Audit Act of 1984 requires DOC to prepare and submit to its federal cognizant agency and applicable grantor agencies a plan for corrective action.

DOC complied with 4 of the 5 recommendations in our prior Single Audit. One recommendation is repeated in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Department of Corrections' (DOC's) internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of DOC's internal control structure disclosed one material weakness. DOC did not accurately report federal grant information in its schedule of federal financial assistance (SFFA). The SFFA presented to us by DOC at the end of our fieldwork contained material misstatements; however, we corrected the noted misstatements to provide a more accurate presentation of the SFFA.

Also, our assessment indicated that DOC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

In addition, our assessment disclosed three reportable conditions related to the classification of revenues and expenditures and to federal reporting.

FINDING

1. Schedule of Federal Financial Assistance

DOC did not accurately report federal grant information in its SFFA. We consider this to be a material internal control weakness.

Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, and Section 18.1461 of the *Michigan Compiled Laws* require each recipient of federal assistance to prepare an SFFA and have it included in the recipient's Single Audit report. The SFFA reports the total expenditures for each federal assistance program by federal grantor agency and program number. SFFAs are provided to the Auditor General, the director of the Department of

Management and Budget, the House and Senate Fiscal Agencies, and the applicable federal cognizant agencies.

Our review disclosed that DOC did not sufficiently reconcile and verify the information reported in its SFFA with the State's accounting records and with the federal grant award agreements for fiscal years 1996-97 and 1995-96. As a result, DOC's SFFA contained numerous errors. We reconciled and verified the grantor agencies, federal assistance program titles, program numbers, and amounts directly expended that DOC reported in its SFFA for:

a. Fiscal Year 1996-97:

- (1) DOC overstated amounts directly expended for the Adult Education - State Grant Program (ABE Program), Title I - Program for Neglected and Delinquent Children (Title I Program), Literacy Programs for Prisoners, and the Byrne Formula Grant Program by a total of \$484,308. The amounts reported as directly expended for the ABE Program and the Byrne Formula Grant Program were materially misstated.
- (2) DOC understated amounts directly expended for Vocational Education - Basic Grants to States, the National School Lunch Program, and Residential Substance Abuse Treatment (RSAT) for State Prisoners by a total of \$313,223. The amounts reported as directly expended for the National School Lunch Program and RSAT for State Prisoners were materially misstated.
- (3) DOC reported that it received federal assistance for the National School Lunch Program from the U.S. Department of Education. The correct federal grantor agency was the U.S. Department of Agriculture.
- (4) DOC did not report federal assistance awarded from two U.S. Department of Justice grants regarding the Violent Offender Incarceration and Truth-in-Sentencing Incentive Grant Program and RSAT for State Prisoners. These awards amounted to approximately \$34.6 million and \$210,800, respectively.

- (5) DOC incorrectly reported program titles for four federal programs: National School Lunch Program, Byrne Formula Grant Program, Block Grants for Prevention and Treatment of Substance Abuse, and Literacy Programs for Prisoners.

b. Fiscal Year 1995-96:

- (1) DOC overstated amounts directly expended for the ABE Program, Vocational Education - Basic Grants to States, the National School Lunch Program, the State Criminal Alien Assistance Program, and Food Distribution by a total of \$98,670. The overstatement of the amount directly expended for the National School Lunch Program resulted in DOC incorrectly reporting the Program as a major program.
- (2) DOC understated amounts directly expended for the Title I Program, Literacy Programs for Prisoners, and the Byrne Formula Grant Program by a total of \$54,914. The amounts reported as directly expended for the Literacy Programs for Prisoners and the Byrne Formula Grant Program were materially misstated.
- (3) DOC reported that it received federal assistance for the National School Lunch Program from the U.S. Department of Education. The correct federal grantor agency was the U.S. Department of Agriculture.
- (4) DOC incorrectly reported program titles for five federal programs: Title I Program, the National School Lunch Program, Block Grants for Prevention and Treatment of Substance Abuse, Literacy Programs for Prisoners, and Byrne Formula Grant Program.

During our audit fieldwork, DOC made numerous attempts to correct the preceding errors. However, the SFFA presented to us at the end of our audit fieldwork still contained material misstatements of amounts directly expended for both fiscal years. We corrected those amounts that were misstated to provide a more accurate presentation of federal program expenditures for this report.

RECOMMENDATION

We recommend that DOC implement an effective internal control structure to help ensure the accuracy of the federal grant information reported in its SFFA.

AGENCY PRELIMINARY RESPONSE

DOC concurred with the recommendation and informed us that it has complied by correcting the reporting basis. DOC stated that it had completed the reports on an appropriation year basis rather than on a fiscal year basis. In addition, DOC informed us that program managers will review program titles to ensure accurate reporting.

FINDING

2. Classification of Revenue

DOC did not properly classify and present revenue within its financial schedules.

Section 1800.115 of the *Codification of Governmental Accounting and Financial Reporting Standards (Codification)*, published by the Governmental Accounting Standards Board (GASB), requires that governmental fund revenue be classified by fund and source. DOC properly classified revenue by fund; however, DOC did not properly classify revenue by source for proper presentation in its financial schedules for fiscal years 1996-97 and 1995-96.

Our review of DOC's financial schedules disclosed that DOC misclassified revenue totaling \$518,304 and \$1,431,266 for fiscal years 1996-97 and 1995-96, respectively:

| Source of Revenue | Revenue | |
|------------------------------------|--------------------------|---------------|
| | Overstated (Understated) | |
| | 1996-97 | 1995-96 |
| Federal agencies | \$ 227 | \$ (216,585) |
| Local agencies | \$ (258,549)* | \$ (319,200)* |
| Services: | | |
| Public Works Program reimbursement | \$ (15) | \$ (1,687) |
| Other revenue from services | \$ 212 | \$ 412,599* |
| Miscellaneous: | | |
| Tether Program contributions | \$ 258,713 | \$ 302,918 |
| Oversight fees | | \$ 115 |
| Refund of prior year expenditures | | \$ (123) |
| Other | \$ (588) | \$ (178,037) |

*Materially misstated.

DOC's improper classification of revenue sources did not materially misstate DOC's total revenue and operating transfers for fiscal years 1996-97 and 1995-96. However, local revenue was materially misstated in both fiscal years and other revenue from services was materially misstated in fiscal year 1995-96.

Misclassifying financial data causes erroneous information to be communicated to financial schedule users and decreases the value of that financial information.

RECOMMENDATION

We recommend that DOC strengthen its internal control structure to help ensure the proper classification and financial schedule presentation of revenue.

AGENCY PRELIMINARY RESPONSE

DOC concurred with the recommendation and will comply by developing reports for use at year-end to ensure that revenue is properly classified and presented in the schedules.

FINDING

3. Classification of Expenditures

DOC's internal control structure did not provide for the proper classification of federal program expenditures.

GASB *Codification* Section 1800.121 requires that governmental fund expenditures be classified by object classes according to the types of items purchased or services obtained. DOC established and used agency object codes as its primary coding structure for classifying types of expenditures. However, during fiscal years 1996-97 and 1995-96, DOC processed some transactions using improper agency object codes. This improper coding caused federal program expenditures to be misclassified in the State's accounting records and resulted in material noncompliance issues (described in Finding 5). Our financial testing of federal program expenditure transactions disclosed:

- a. DOC improperly classified ABE Program expenditures for data processing equipment, data processing software, data processing installation services, data processing maintenance, and shipping costs as educational materials and supplies. These expenditures amounted to \$645,595.
- b. DOC improperly classified Title I Program expenditures for data processing software, data processing installation services, and shipping costs as educational materials and supplies. These expenditures amounted to \$63,545.

The designation of an agency object code to an expenditure identifies the type of item purchased or service obtained and how an expenditure is classified and ultimately compiled in the State's accounting records. Departments use expenditure classifications for purposes of budgeting and assigning assets to the general fixed assets account group. Because the preceding improper expenditure

classifications included computer equipment, we examined five purchases of equipment totaling \$20,129 that DOC improperly classified and should have capitalized. DOC could not provide documentation to show that these items were properly included in DOC's 1995-96 fixed asset inventory provided to the Department of Management and Budget and subsequently included in the *State of Michigan Comprehensive Annual Financial Report*.

We noted this same condition in our prior audit. DOC responded that it would implement training in fiscal year 1995-96 to help ensure that all expenditures are classified to the proper object coding and that assets are properly reported. During our audit fieldwork, ABE Program and Title I Program personnel informed us that they will implement the use of correct agency object codes beginning with fiscal year 1997-98.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DOC IMPROVE ITS INTERNAL CONTROL STRUCTURE TO PROVIDE FOR THE PROPER CLASSIFICATION OF FEDERAL PROGRAM EXPENDITURES.

AGENCY PRELIMINARY RESPONSE

DOC concurred with the recommendation and informed us that it has complied by training program and procurement staff to correctly enter object codes on requisitions in order to ensure proper classification of federal program expenditures. Also, finance staff will periodically review the coding of purchases and will take appropriate action as necessary.

FINDING

4. Federal Reporting

DOC did not submit required federal financial and program activity reports in compliance with applicable federal law and grant award requirements for 5 of 7 major federal assistance programs.

Most federal programs require the periodic preparation and submission of activity reports, such as monthly financial reports, quarterly program reports, and final

program performance and expenditure reports. Our review of DOC's compliance with federal grant activity reporting requirements during fiscal years 1995-96 and 1996-97 disclosed:

- a. DOC either did not submit or did not submit on a timely basis its federal financial status reports to the Office of Justice Programs, U.S. Department of Justice, for the State Criminal Alien Assistance Program. DOC did not prepare and submit quarterly and final federal financial status reports in fiscal year 1996-97. Also, DOC submitted its fiscal year 1995-96 first quarter federal financial status report 41 days late.
- b. DOC did not submit timely federal financial and program performance reports to the Office of Drug Control Policy, Department of Community Health, for the Byrne Formula Grant Program for fiscal year 1995-96. DOC submitted all 12 monthly financial reports from 2 to 63 days late. Also, DOC submitted 3 (75%) of 4 quarterly program reports from 25 to 57 days late. Further, DOC submitted the final program performance and expenditure report 12 days late.
- c. DOC did not submit timely and accurate final program financial expenditure reports to the Michigan Department of Education (MDE) for the ABE Program, including teacher mini-grants. DOC received grant awards for four ABE Program projects during fiscal years 1996-97 and 1995-96. DOC submitted all four final expenditure reports from 12 to 184 days late. Also, DOC overstated expenditures by \$37,849 on its fiscal year 1995-96 final expenditure report for a primary ABE Program project.
- d. DOC did not submit timely and accurate final program financial expenditure reports to MDE for the Title I Program. DOC submitted the required final expenditure reports for fiscal years 1996-97 and 1995-96 from 16 to 73 days late. Also, DOC overstated expenditures by \$11,386 in its final expenditure report for fiscal year 1996-97 and understated expenditures by \$46 in the final expenditure report for fiscal year 1995-96.
- e. DOC did not submit timely quarterly and final programmatic/financial activity reports to the Department of Community Health for the Block Grants for the Prevention and Treatment of Substance Abuse. DOC submitted the final

reports for fiscal year 1995-96 110 days late and submitted 6 (75%) of 8 quarterly reports from 3 to 39 days late.

- f. DOC did not submit timely quarterly financial activity reports to the U.S. Department of Education for the Literacy Programs for Prisoners. DOC submitted 5 (63%) of the 8 quarterly reports from 5 to 98 days late during fiscal years 1996-97 and 1995-96.

DOC's noncompliance with federal reporting requirements provides federal grantor agencies with justification for rejecting DOC's requests for subsequent grant awards. In addition, DOC's failure to report timely and accurately hinders the federal grantor agencies' monitoring of DOC's federal grant expenditures.

RECOMMENDATION

We recommend that DOC improve its internal control structure to help ensure that required federal financial and program activity reports are submitted in compliance with applicable federal law and grant award requirements.

AGENCY PRELIMINARY RESPONSE

DOC concurred with the recommendation and will comply by submitting the reports on a timely basis and by submitting amended reports, if necessary, after the fiscal year close. DOC stated that it had previously submitted the reports after the fiscal year was closed.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess DOC's compliance with both State and federal laws and regulations that could have a material effect on either DOC's financial schedules or any of its major federal financial assistance programs.

Conclusion: Our assessment did not disclose any noncompliance with laws and regulations that could have a material effect on DOC's financial schedules. However, our assessment did disclose material noncompliance with federal laws and regulations

pertaining to two major federal assistance programs. DOC did not comply with the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) when administering the ABE Program and the Title I Program. Noncompliance with the Common Rule provides federal grantor agencies with justification for disallowing program expenditures and for rejecting subsequent requests for federal funds.

Also, our audit disclosed questioned costs totaling at least \$686,422 and negative questioned costs totaling \$32,365 for the two-year period ended September 30, 1997. These costs are presented as supplemental information in the schedule of questioned costs.

FINDING

5. Compliance With Federal Regulations

DOC did not comply with the Common Rule when administering the ABE Program and the Title I Program.

The Common Rule establishes uniform administrative rules for federal grants and cooperative agreements. These rules include requirements regarding the procurement of program goods and services, the determination of allowable program costs, and the management of equipment acquired with program funds. Our compliance testing of federal grant program expenditures recorded in fiscal years 1996-97 and 1995-96 disclosed instances of noncompliance with the Common Rule:

- a. DOC did not properly identify ABE Program and Title I Program purchases totaling \$591,668 and \$63,545, respectively, with the correct agency object codes. This noncompliance with State procurement policies and procedures was material to both the ABE Program and the Title I Program. For example, DOC incorrectly identified and coded \$72,910 of purchases for data computer installation services as educational materials and supplies. Finance personnel agreed that these purchases should have been identified and coded as data processing purchased services, not as supplies and materials (see schedule of questioned costs, items 1 and 7).

The Common Rule requires that grantees use the same procurement procedures for goods and services purchased with federal funds as for goods and services purchased with non-federal funds. DOC established and used agency object codes as its primary coding structure for identifying the types of goods purchased or services obtained.

DOC's inaccurate coding of ABE Program purchases caused its fiscal year 1996-97 final expenditure report to MDE to reflect program expenditures which MDE had not approved in the ABE Program budget for that fiscal year.

- b. DOC did not have documentation to support the authorization of a fiscal year 1995-96 expenditure credit transaction totaling \$10,900. This transaction shifted a percentage of the personnel compensation funding for the ABE Program to the State's General Fund. The Common Rule requires that recipients use OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* to determine the allowability of program costs. OMB Circular A-87 requires that program costs be adequately documented (see schedule of questioned costs, item 2).

In addition, DOC did not properly capitalize fiscal year 1995-96 equipment expenditures totaling \$20,129 as required by OMB Circular A-87. This noncompliance was material to the ABE Program. Purchases of data processing equipment for the ABE Program were improperly coded as either noncapitalized data processing equipment or educational supplies and materials (see schedule of questioned costs, item 3).

OMB Circular A-87 defines capital equipment as an item having a useful life of more than one year and an acquisition cost equal to the lesser of the capitalization level established by the governmental unit for financial statement purposes or \$5,000. The State's General Fixed Assets Accounting Manual (section C, Equipment Capitalization Policies) requires that all equipment with an acquisition cost of \$1,000 or more be capitalized and recorded in a department's accounting records.

- c. DOC did not maintain property records for equipment purchased with ABE Program funds. We examined five purchases of equipment in fiscal year

1995-96 totaling \$20,129. DOC could not provide the property records for \$15,918 (79%) of the purchases (see schedule of questioned costs, item 3).

The Common Rule requires that property records be maintained to identify the equipment purchased with federal financial assistance. Such property records must include a description, identification number, location, acquisition cost and date, and the use and condition of the equipment. In addition, the recipient shall conduct a physical inventory of the property at least once every two years.

Property records are essential to ensure against loss, damage, or theft.

DOC's noncompliance with the Common Rule provides the federal grantor agencies with justification for disallowing program expenditures and for rejecting DOC's subsequent requests for federal funds.

RECOMMENDATION

We recommend that DOC comply with the Common Rule when administering the ABE Program and the Title I Program.

AGENCY PRELIMINARY RESPONSE

DOC concurred with the recommendation and will comply with the Common Rule.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit DOC's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on DOC's financial schedules for the fiscal years ended September 30, 1997 and September 30, 1996.

Independent Auditor's Report on
the Internal Control Structure

July 2, 1998

Mr. Kenneth L. McGinnis, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. McGinnis:

We have audited the General Fund financial schedules of the Department of Corrections for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated July 2, 1998. We have also audited the Department of Corrections' compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 2, 1998.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement and about whether the Department complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1997 and September 30, 1996, we considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Department's financial schedules and not to provide assurance on the internal control structure. We also considered the Department's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the Department of Corrections is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

Accounting Controls

- Payroll expenditures
- Nonpayroll expenditures
- Revenue and cash receipts

Administrative Controls

General requirements:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific requirements:

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, and/or earmarking
- Special reporting
- Special tests and provisions

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1997 and September 30, 1996, the Department of Corrections expended 88% and 81%, respectively, of its total federal financial and nonfinancial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Department's major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable conditions are more fully described in Findings 2 through 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the Department's internal control structure and its operation that we consider to be a material weakness as defined above. The

Department did not accurately report federal grant information in the schedule of federal financial assistance. To provide a more accurate presentation of the schedule, we corrected the noted misstatements. This material weakness is more fully described in Finding 1. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the Department of Corrections' financial schedules and of its compliance with requirements applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996, and this report on the internal control structure does not affect our reports thereon dated July 2, 1998.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

July 2, 1998

Mr. Kenneth L. McGinnis, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear McGinnis:

We have audited the General Fund financial schedules of the Department of Corrections for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated July 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Department of Corrections is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Department of Corrections complied, in all material respects, with the provisions referred to in the previous paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Department had not complied, in all material respects, with those provisions.

We have also audited the Department's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests or provisions; claims for advances and reimbursement; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedules of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996. The management of the Department is responsible for the Department's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Department of Corrections complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests or provisions; claims for advances and reimbursement; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

We have applied procedures to test the Department's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedules of federal financial assistance, for the fiscal years ended September 30, 1997 and September 30, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements, which are described in the previous paragraph, were substantially less in

scope than an audit, the objective of which is the expression of an opinion on the Department's compliance with these requirements. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow the general requirements that caused us to conclude that the misstatements resulting from those failures are material to the Department's federal financial assistance programs. The results of procedures used to determine compliance with the general requirements disclosed material instances of noncompliance with those requirements for the Department's Adult Education - State Grant Program and Title I - Program for Neglected and Delinquent Children. These material instances of noncompliance are described in Finding 5 and the schedule of questioned costs.

Except as described above, with respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the third previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Corrections had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

July 2, 1998

Mr. Kenneth L. McGinnis, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. McGinnis:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of General Fund sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the Department of Corrections management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

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

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 1997 and September 30, 1996 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the Department's financial schedules. The accompanying supplemental financial schedules, consisting of the schedules of General Fund sources and disposition of authorizations by appropriation unit and the schedules of federal financial assistance, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Department's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Department's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 2, 1998 on our consideration of the Department of Corrections' internal control structure and a report dated July 2, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

| | <u>1997</u> | <u>1996</u> |
|--|-----------------------------|-----------------------------|
| REVENUE | | |
| Federal agencies (Note 3) | \$ 6,427,482 | \$ 4,180,494 |
| Local agencies | 25,375 | 26,819 |
| Services: | | |
| Resident stores | 2,327,101 | 1,871,400 |
| Public Works Program reimbursements | 703,419 | 690,208 |
| Other revenue from services | 172,146 | 519,723 |
| Miscellaneous: | | |
| Telephone fees and commissions | 13,713,452 | 10,214,328 |
| Community Residential Program fees | 3,250,467 | 2,520,911 |
| Tether Program contributions | 4,255,643 | 3,794,981 |
| Oversight fees | 5,439,599 | 4,271,128 |
| Refund of prior year expenditures | 269,074 | 758,128 |
| Other | 621,829 | 2,568,743 |
| | <u> </u> | <u> </u> |
| Total Revenue | <u>\$ 37,205,588</u> | <u>\$ 31,416,863</u> |
| OPERATING TRANSFERS | | |
| Correctional Industries Revolving Fund reimbursement | <u>\$ 171,000</u> | <u>\$ 171,000</u> |
| | <u> </u> | <u> </u> |
| Total Operating Transfers | <u>\$ 171,000</u> | <u>\$ 171,000</u> |
| | <u> </u> | <u> </u> |
| Total Revenue and Operating Transfers | <u><u>\$ 37,376,588</u></u> | <u><u>\$ 31,587,863</u></u> |

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

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

| | <u>1997</u> | <u>1996</u> |
|---|-------------------------|-------------------------|
| SOURCES OF AUTHORIZATIONS (Note 2) | | |
| General purpose appropriations | \$ 1,299,254,014 | \$ 1,275,717,924 |
| Budgetary transfers in(out) | | (1,099,997) |
| Balances carried forward | 16,714,233 | 20,595,296 |
| Restricted financing sources | 31,776,637 | 27,744,572 |
| Less: Intrafund expenditure reimbursements | <u>(2,431,460)</u> | <u>(5,323,961)</u> |
| Total | <u>\$ 1,345,313,423</u> | <u>\$ 1,317,633,834</u> |
| DISPOSITION OF AUTHORIZATIONS (Note 2) | | |
| Gross expenditures and operating transfers | \$ 1,309,008,753 | \$ 1,292,702,248 |
| Less: Intrafund expenditure reimbursements | <u>(2,431,460)</u> | <u>(5,323,961)</u> |
| Net expenditures and operating transfers | <u>\$ 1,306,577,293</u> | <u>\$ 1,287,378,287</u> |
| Balances Carried Forward: | | |
| Encumbrances | \$ 10,991,404 | \$ 7,618,465 |
| Multi-year projects | 6,343,864 | 6,947,483 |
| Restricted revenue - authorized | 51,925 | 2,147,240 |
| Restricted revenue - not authorized | <u>2,387,892</u> | <u>64,438</u> |
| Total balances carried forward | <u>\$ 19,775,085</u> | <u>\$ 16,777,626</u> |
| Balances lapsed | <u>\$ 19,008,292</u> | <u>\$ 13,477,921</u> |
| Overexpended | <u>\$ (47,248)</u> | <u>\$ 0</u> |
| Total | <u>\$ 1,345,313,423</u> | <u>\$ 1,317,633,834</u> |

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

Notes to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC), excluding the Correctional Industries Revolving Fund, for the fiscal years ended September 30, 1997 and September 30, 1996. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these financial schedules relate directly to DOC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, and Interfund Receivables and Payables.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DOC or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of Authorizations

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

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose appropriations.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts of DOC or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized 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 revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department 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 revenue - authorized or restricted revenue - not authorized.

- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. DOC collected \$2,431,460 and \$5,323,961 from the Department of Management and Budget for the purpose of financing its capital outlay and work projects in fiscal years 1996-97 and 1995-96, respectively.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Multi-year project balances: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- h. Restricted revenue - authorized: Revenues that, by statute or the State Constitution, are restricted for use to a particular department program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.
- i. Restricted revenue - not authorized: Revenues that, by statute, are restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.
- j. Balances lapsed: Department authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- k. Overexpended: The total of the DOC's overexpenditure of line-item authorizations. DOC's fiscal year 1996-97 overexpended

balance in the amount of \$47,248 is the result of encumbrances that could not be liquidated in the Michigan Administrative Information Network accounting system.

Note 3 Nonfinancial Assistance

Federal nonfinancial assistance of surplus food received in the amount of approximately \$278,283 and \$534,471 for fiscal years 1996-97 and 1995-96, respectively, is not included in federal revenue. The nonfinancial assistance reflects the value assigned by the federal government.

THIS PAGE INTENTIONALLY BLANK

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS

Schedule of General Fund Sources and Disposition of Authorizations by Appropriation Unit

Fiscal Year Ended September 30, 1997

| Appropriation Unit | Sources of Authorizations | | | | | Total |
|--|---------------------------|------------------------|----------------------|----------------------|----|-------------------------|
| | General Purpose | Budgetary | Balances | Restricted | | |
| | Appropriations | Transfers In (Out) | Carried Forward | Financing Sources | | |
| Central Administration | | | | | | |
| Executive | \$ 8,195,000 | \$ (285,100) | \$ 1,905 | \$ | \$ | \$ 7,911,805 |
| Administration and Programs | 19,625,775 | 4,851,100 | 46,742 | 2,637,011 | | 27,160,628 |
| Central Support Accounts | 16,490,800 | 430,000 | 632,411 | | | 17,553,211 |
| Training, Community Support and Substance Abuse Programs | 23,717,400 | 2,715,800 | 7,222,306 | 1,121,322 | | 34,776,828 |
| Consent Decrees | 98,010,300 | (34,440,500) | 740,665 | | | 64,310,465 |
| Office of Health Care | 38,873,800 | 1,042,500 | 17,351 | | | 39,933,651 |
| Clinical Operations | 57,008,300 | 10,577,300 | 151,617 | | | 67,737,217 |
| Office of Community Corrections | 29,894,900 | 2,370,200 | 4,106,085 | 8,855,800 | | 45,226,985 |
| Field Operations | 97,161,800 | (3,055,100) | 2,214,042 | 4,312,546 | | 100,633,288 |
| Special Alternative Incarceration Program | 8,870,800 | (300,000) | 81,455 | 109,511 | | 8,761,765 |
| Community Placement | 38,190,100 | 402,900 | 19,650 | 6,346,300 | | 44,958,950 |
| Correctional Facilities - Administration | 13,678,539 | (1,349,800) | 282,413 | 2,774,163 | | 15,385,316 |
| Subtotal for Central Administration | \$ 449,717,514 | \$ (17,040,700) | \$ 15,516,642 | \$ 26,156,654 | | \$ 474,350,110 |
| Facility Operations | | | | | | |
| Alger Maximum Correctional Facility | \$ 19,605,100 | \$ (602,000) | \$ 3,498 | \$ 8,246 | \$ | \$ 19,014,844 |
| Baraga Maximum Correctional Facility | 20,271,100 | (1,410,000) | | 11,761 | | 18,872,861 |
| E. C. Brooks Correctional Facility | 36,803,900 | (500,000) | 61,820 | 143,962 | | 36,509,682 * |
| Carson City Correctional Facility | 37,198,400 | (470,800) | 11,927 | 94,989 | | 36,834,516 |
| Chippewa Correctional Facility | 36,526,100 | (840,000) | 4,615 | 159,115 | | 35,849,830 |
| Corrections Camps Program | 63,423,000 | | 7,943 | 733,837 | | 64,164,780 |
| G. Robert Cotton Correctional Facility | 27,749,700 | (266,000) | 18,661 | 119,076 | | 27,621,437 |
| Florence Crane Women's Correctional Facility | 13,939,200 | 207,000 | 18,447 | 42,779 | | 14,207,426 |
| Charles E. Egeler Correctional Facility | | 31,542,200 | 52,151 | 52,973 | | 31,647,324 * |
| Richard A. Handlon Michigan Training Unit | 20,100,200 | 1,094,500 | 47,202 | 62,715 | | 21,304,617 * |
| Gus Harrison Correctional Facility | 36,110,100 | (40,000) | 68,102 | 183,294 | | 36,321,496 * |
| Huron Valley Men's Correctional Facility | 19,829,500 | 2,530,500 | 10,213 | 41,263 | | 22,411,476 * |
| Ionia Maximum Correctional Facility | 22,460,700 | | 24,664 | 11,012 | | 22,496,376 |
| Ionia Temporary Correctional Facility | 15,029,200 | (62,000) | 16,238 | 400,712 | | 15,384,150 |
| Kinross Correctional Facility | 38,213,500 | (225,000) | 15,462 | 129,686 | | 38,133,648 * |
| Lakeland Correctional Facility | 20,451,000 | (1,160,000) | 15,968 | 46,479 | | 19,353,447 * |
| Macomb Correctional Facility | 20,964,200 | (100,000) | 26,967 | 98,132 | | 20,989,298 |
| Marquette Branch Prison | 27,141,900 | 1,232,100 | (3,388) | 93,083 | | 28,463,695 * |
| Michigan Reformatory | 28,181,800 | 2,518,700 | 8,828 | 122,377 | | 30,831,705 * |
| Mid-Michigan Temporary Correctional Facility | 15,404,000 | (100,000) | | 58,370 | | 15,362,370 |
| Mound Correctional Facility | 21,229,300 | 423,800 | 247,905 | 13,659 | | 21,914,664 |
| Muskegon Correctional Facility | 21,359,500 | (217,000) | 28,764 | 69,807 | | 21,241,072 * |
| Newberry Correctional Facility | 18,858,900 | (742,000) | 104,013 | 25,260 | | 18,246,173 |
| Oaks Correctional Facility | 23,805,300 | (2,213,500) | 709 | 8,500 | | 21,601,009 |
| Riverside Correctional Facility | 24,628,000 | 6,025,200 | 37,080 | 43,129 | | 30,733,409 * |
| Ryan Correctional Facility | 22,850,200 | (100,000) | 29,935 | 53,125 | | 22,833,260 |
| Saginaw Correctional Facility | 21,251,600 | 275,000 | | 86,085 | | 21,612,685 |
| Robert Scott Correctional Facility | 22,263,800 | (60,000) | | 80,609 | | 22,284,409 * |
| Standish Maximum Correctional Facility | 20,526,200 | (289,000) | | 7,961 | | 20,245,161 |
| State Prison of Southern Michigan | 72,997,700 | (6,838,500) | 260,766 | 2,500,311 | | 68,920,277 * |
| State Prison of Southern Michigan "B" | 22,522,000 | (13,458,100) | | 55 | | 9,063,955 |
| Thumb Correctional Facility | 18,808,300 | (319,000) | 75,706 | 53,522 | | 18,618,528 |
| Western Wayne Correctional Facility | 19,033,100 | 848,600 | 3,394 | 64,098 | | 19,949,192 * |
| Inmate Housing Fund | | 356,000 | | | | 356,000 |
| Subtotal for Facility Operations | \$ 849,536,500 | \$ 17,040,700 | \$ 1,197,591 | \$ 5,619,984 | | \$ 873,394,774 |
| Intrafund expenditure reimbursements (Note 2e) | | | | (2,431,460) | | (2,431,460) |
| Totals | \$ 1,299,254,014 | \$ 0 | \$ 16,714,233 | \$ 29,345,177 | | \$ 1,345,313,423 |

* = Includes consent decree amounts recorded directly by this facility.

Disposition of Authorizations

| Expenditures and Operating Transfers Out | Encumbrances Carried Forward | Unencumbered | | Overexpended | Total |
|--|------------------------------------|---------------------|----------------------|--------------------|-------------------------|
| | | Balances Forward | Balances Lapsed | | |
| \$ 7,688,882 | \$ 72,621 | \$ | \$ 150,302 | \$ | \$ 7,911,805 |
| 26,828,553 | 74,093 | | 257,982 | | 27,160,628 |
| 16,799,846 | 695,058 | | 58,307 | | 17,553,211 |
| 27,438,435 | 459,640 | 6,178,628 | 700,125 | | 34,776,828 |
| 61,844,741 | 267,120 | | 2,198,605 | | 64,310,465 |
| 39,634,815 | 27,955 | | 270,882 | | 39,933,651 |
| 65,822,076 | 234,860 | | 1,680,281 | | 67,737,217 |
| 40,192,248 | 2,878,448 | 165,236 | 1,991,053 | | 45,226,985 |
| 96,658,507 | 209,403 | 2,326,455 | 1,438,924 | | 100,633,288 |
| 8,527,269 | 161,440 | | 73,057 | | 8,761,765 |
| 43,886,350 | 550,050 | | 522,550 | | 44,958,950 |
| 14,623,815 | 231,945 | 113,362 | 464,055 | (40,560) | 15,392,617 |
| <u>\$ 449,945,537</u> | <u>\$ 5,862,631</u> | <u>\$ 8,783,681</u> | <u>\$ 9,806,121</u> | <u>\$ (40,560)</u> | <u>\$ 474,357,411</u> |
| | | | | | |
| \$ 18,846,274 | \$ 7,869 | \$ | \$ 162,543 | \$ (3,683) | \$ 19,013,002 |
| 18,572,531 | 70,658 | | 229,673 | | 18,872,861 |
| 35,853,420 | 440,991 | | 215,271 | | 36,509,682 * |
| 35,945,745 | 401,549 | | 487,221 | | 36,834,516 |
| 35,245,012 | 393,211 | | 211,608 | | 35,849,830 |
| 63,461,731 | 230,496 | | 472,553 | | 64,164,780 |
| 26,978,943 | 412,441 | | 230,052 | | 27,621,437 |
| 13,979,471 | 41,137 | | 186,818 | | 14,207,426 |
| 31,172,095 | 22,947 | | 452,281 | | 31,647,324 * |
| 20,981,875 | 46,588 | | 276,154 | | 21,304,617 * |
| 36,081,481 | 68,793 | | 171,222 | | 36,321,496 * |
| 22,070,355 | 171,905 | | 166,721 | | 22,408,981 * |
| 22,282,830 | 35,641 | | 177,905 | | 22,496,376 |
| 14,996,575 | 322,894 | | 64,681 | | 15,384,150 |
| 37,610,764 | 24,053 | | 498,831 | | 38,133,648 * |
| 18,660,086 | 456,421 | | 236,941 | | 19,353,447 * |
| 20,498,817 | 112,244 | | 378,238 | | 20,989,298 |
| 28,288,624 | 21,296 | | 153,775 | | 28,463,695 * |
| 30,320,105 | 189,130 | | 322,470 | | 30,831,705 * |
| 15,192,274 | 51,816 | | 118,280 | | 15,362,370 |
| 21,568,402 | 16,443 | | 329,820 | | 21,914,664 |
| 21,061,510 | 63,868 | | 115,694 | | 21,241,072 * |
| 17,988,432 | 97,035 | | 160,706 | (2,820) | 18,243,353 |
| 21,421,555 | 18,337 | | 161,157 | (39) | 21,601,009 |
| 29,731,428 | 643,301 | | 358,680 | (146) | 30,733,263 * |
| 22,662,759 | 22,421 | | 148,080 | | 22,833,260 |
| 21,385,610 | 763 | | 226,312 | | 21,612,685 |
| 21,842,398 | 46,931 | | 395,079 | | 22,284,409 * |
| 19,943,008 | 3,093 | | 299,060 | | 20,245,161 |
| 68,038,065 | 368,405 | | 513,807 | | 68,920,277 * |
| 8,583,734 | 158,551 | | 321,671 | | 9,063,955 |
| 18,164,561 | 120,856 | | 333,111 | | 18,618,528 |
| 19,632,744 | 46,689 | | 269,759 | | 19,949,192 * |
| | | | 356,000 | | 356,000 |
| <u>\$ 859,063,216</u> | <u>\$ 5,128,773</u> | <u>\$ 0</u> | <u>\$ 9,202,171</u> | <u>\$ (6,688)</u> | <u>\$ 873,387,472</u> |
| (2,431,460) | | | | | (2,431,460) |
| <u>\$ 1,306,577,293</u> | <u>\$ 10,991,404</u> | <u>\$ 8,783,681</u> | <u>\$ 19,008,292</u> | <u>\$ (47,248)</u> | <u>\$ 1,345,313,423</u> |

DEPARTMENT OF CORRECTIONS
Schedule of General Fund Sources and Disposition of Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1996

| Appropriation Unit | Sources of Authorizations | | | | Total |
|---|--------------------------------|------------------------------|--------------------------|------------------------------|------------------|
| | General Purpose Appropriations | Budgetary Transfers In (Out) | Balances Carried Forward | Restricted Financing Sources | |
| Central Administration | | | | | |
| Executive | \$ 8,084,900 | \$ (563,130) | \$ 23,451 | \$ | \$ 7,545,221 |
| Administration and Programs | 21,258,698 | 3,875,570 | 150,849 | 1,352,361 | 26,637,478 |
| Central Support Accounts | 15,196,137 | 1,923,000 | 679,103 | | 17,798,240 |
| Training, Community Support and Substance Abuse Programs | 22,917,400 | 3,004,800 | 12,872,605 | 884,865 | 39,679,670 |
| Consent Decrees | 101,065,600 | (46,324,500) | 692,072 | | 55,433,172 |
| Office of Health Care | 30,319,500 | 15,127,800 | 12,721 | | 45,460,021 |
| Clinical Operations | 59,175,900 | 4,038,800 | 715,321 | | 63,930,021 |
| Office of Community Corrections | 26,159,500 | (1,759,670) | 225,384 | | 24,625,214 |
| Field Operations | 93,822,103 | (980,350) | 470,410 | 4,333,121 | 97,645,284 |
| Special Alternative Incarceration Program | 8,861,900 | (596,130) | 150,919 | 94,244 | 8,510,933 |
| Community Placement | 38,943,300 | 317,860 | 972,705 | 5,438,015 | 45,671,880 |
| Correctional Facilities - Administration | 11,732,997 | 233,010 | 222,882 | 4,075,094 | 16,263,984 |
| Subtotal for Central Administration | \$ 437,537,936 | \$ (21,702,940) | \$ 17,188,423 | \$ 16,177,700 | \$ 449,201,118 |
| Facility Operations | | | | | |
| Alger Maximum Correctional Facility | \$ 18,503,100 | \$ (489,300) | \$ 7,834 | \$ 5,503 | \$ 18,027,136 |
| Baraga Maximum Correctional Facility | 18,030,416 | (405,710) | 4,175 | 6,236 | 17,635,117 |
| E.C. Brooks Correctional Facility | 37,081,300 | (113,200) | 125,583 | 145,537 | 37,239,220 |
| Carson City Correctional Facility | 37,844,600 | (1,064,300) | 158,690 | 90,409 | 37,029,399 |
| Chippewa Correctional Facility | 37,265,500 | (1,241,900) | 79,347 | 115,400 | 36,218,347 |
| Corrections Camp Program | 53,403,483 | 5,863,550 | 13,324 | 747,199 | 60,027,557 |
| G. Robert Cotton Correctional Facility | 27,990,900 | (68,800) | 190,911 | 91,597 | 28,204,608 |
| Florence Crane Women's Correctional Facility | 14,604,800 | (120,440) | 9,890 | 30,544 | 14,524,794 |
| Charles E. Egeler Correctional Facility | 18,941,700 | 13,070,900 | 56,151 | 391,149 | 32,459,900 * |
| Richard A. Handlon Michigan Training Unit | 20,120,300 | 759,800 | 239,070 | 61,457 | 21,180,627 * |
| Gus Harrison Correctional Facility | 36,822,700 | (573,600) | 83,024 | 122,604 | 36,454,728 * |
| Huron Valley Men's Correctional Facility | 20,130,900 | 2,601,800 | 159,398 | 34,185 | 22,926,283 * |
| Ionia Maximum Correctional Facility | 22,884,700 | (598,700) | 39,674 | 8,345 | 22,334,019 |
| Ionia Temporary Correctional Facility | 15,145,158 | (525,900) | 93,018 | 409,919 | 15,122,194 |
| Kinross Correctional Facility | 38,326,400 | (878,900) | 248,640 | 130,875 | 37,827,015 * |
| Lakeland Correctional Facility | 14,269,300 | 1,942,450 | 64,259 | 38,063 | 16,314,073 * |
| Macomb Correctional Facility | 21,523,381 | (560,900) | 115,865 | 93,438 | 21,171,783 |
| Marquette Branch Prison | 27,330,400 | 895,200 | 73,226 | 40,221 | 28,339,047 * |
| Michigan Reformatory | 28,802,848 | 2,290,300 | 49,173 | 96,064 | 31,238,386 * |
| Mid-Michigan Temporary Correctional Facility | 15,295,900 | (540,600) | 4,076 | 53,979 | 14,813,355 |
| Mound Correctional Facility | 21,750,100 | (1,175,000) | 132,144 | 47,840 | 20,755,085 |
| Muskegon Correctional Facility | 21,153,400 | 474,300 | 69,722 | 59,637 | 21,757,059 * |
| Newberry Correctional Facility | 12,175 | 17,251,100 | 166,536 | 115 | 17,429,925 |
| Oaks Correctional Facility | 21,025,660 | (656,000) | 125,967 | 5,500 | 20,501,127 |
| Riverside Correctional Facility | 20,479,400 | 9,680,200 | 310,024 | 37,660 | 30,507,283 * |
| Ryan Correctional Facility | 23,165,061 | (1,515,200) | 27,724 | 60,690 | 21,738,274 |
| Saginaw Correctional Facility | 21,665,636 | 215,200 | 4,700 | 75,308 | 21,960,844 |
| Robert Scott Correctional Facility | 21,892,600 | 110,900 | 13,842 | 53,238 | 22,070,580 * |
| Standish Maximum Correctional Facility | 19,010,600 | (368,800) | 2,467 | 5,500 | 18,649,767 * |
| State Prison of Southern Michigan | 70,925,600 | 1,782,890 | 456,398 | 134,600 | 73,299,488 * |
| Thumb Correctional Facility | 19,125,900 | (721,700) | 205,642 | 52,072 | 18,661,914 |
| Western Wayne Correctional Facility | 19,242,007 | 780,600 | 76,379 | 32,989 | 20,131,976 * |
| Inmate Housing Fund | 34,296,300 | (25,497,297) | | 8,289,000 | 17,088,003 |
| Subtotal for Facilities Operations | \$ 838,062,225 | \$ 20,602,943 | \$ 3,406,873 | \$ 11,566,872 | \$ 873,638,913 |
| Intrafund expenditure reimbursements (Note 2e) | | | | (5,323,961) | (5,323,961) |
| Adjustments for items posted subsequent to publishing <i>State of Michigan Comprehensive Annual Financial Report</i> | 117,763 | | | | 117,763 |
| Totals | \$ 1,275,717,924 | \$ (1,099,997) | \$ 20,595,296 | \$ 22,420,611 | \$ 1,317,638,834 |

* = Includes consent decree amounts recorded directly by this facility.

Disposition of Authorizations

| Expenditures and Operating Transfers Out | Encumbrances Carried Forward | Unencumbered | | Overexpended | Total |
|--|------------------------------------|---------------------|----------------------|--------------------|--------------------------------------|
| | | Balances Forward | Balances Lapsed | | |
| \$ 7,527,503 | \$ 1,905 | \$ | \$ 15,813 | \$ | \$ 7,545,221 |
| 26,530,131 | 46,742 | | 60,604 | | 26,637,478 |
| 16,632,050 | 632,411 | | 533,780 | | 17,798,240 |
| 32,439,514 | 556,395 | 6,665,911 | 22,851 | (5,000) | 39,679,670 |
| 54,679,435 | 740,665 | | 13,072 | | 55,433,172 |
| 45,423,514 | 17,351 | | 19,156 | | 45,460,021 |
| 63,764,102 | 151,617 | | 14,302 | | 63,930,021 |
| 20,345,384 | 3,887,906 | 218,179 | 173,745 | | 24,625,214 |
| 91,942,222 | 66,801 | 2,147,240 | 3,489,020 | | 97,645,284 |
| 8,240,058 | 81,455 | | 189,421 | | 8,510,933 |
| 45,077,442 | 19,650 | | 574,789 | | 45,671,880 |
| 16,005,049 | 217,975 | 64,438 | 17,081 | (35,979) | 16,268,564 |
| <u>\$ 428,606,402</u> | <u>\$ 6,420,875</u> | <u>\$ 9,095,768</u> | <u>\$ 5,123,634</u> | <u>\$ (40,979)</u> | <u>\$ 449,205,699</u> |
| \$ 18,024,116 | \$ 3,498 | \$ | \$ 2,873 | \$ (3,350) | \$ 18,027,136 |
| 17,634,673 | | | 444 | | 17,635,117 |
| 36,386,958 | 61,820 | | 790,441 | | 37,239,220 |
| 36,672,363 | 11,927 | | 345,109 | | 37,029,399 |
| 35,304,005 | 4,615 | | 909,726 | | 36,218,347 |
| 59,979,790 | 7,943 | | 39,824 | | 60,027,557 |
| 27,834,755 | 18,661 | | 351,191 | | 28,204,608 |
| 14,242,298 | 18,447 | | 264,049 | | 14,524,794 |
| 32,392,154 | 52,151 | | 15,596 | | 32,459,900 |
| 21,123,269 | 47,202 | | 10,156 | | 21,180,627 |
| 35,844,868 | 68,102 | | 541,758 | | 36,454,728 |
| 22,630,085 | 10,213 | | 288,480 | (2,495) | 22,926,283 |
| 22,300,424 | 24,664 | | 8,932 | | 22,334,019 |
| 15,099,889 | 16,238 | | 6,067 | | 15,122,194 |
| 37,483,607 | 15,462 | | 327,946 | | 37,827,015 |
| 16,274,048 | 15,968 | | 24,057 | | 16,314,073 |
| 20,576,136 | 26,967 | | 568,681 | | 21,171,783 |
| 27,546,362 | (3,388) | | 796,073 | | 28,339,047 |
| 30,966,097 | 8,828 | | 263,461 | | 31,238,386 |
| 14,812,734 | | | 622 | | 14,813,355 |
| 20,493,034 | 247,905 | | 14,146 | | 20,755,085 |
| 21,265,967 | 28,764 | | 462,328 | | 21,757,059 |
| 17,326,473 | 104,013 | | 26,249 | | 17,456,735 |
| 20,238,524 | 709 | | 261,893 | | 20,501,127 |
| 30,446,060 | 37,080 | | 35,508 | | 30,518,648 |
| 21,701,351 | 29,935 | | 6,988 | | 21,738,274 |
| 21,694,742 | | | 266,102 | | 21,960,844 |
| 21,541,547 | | | 529,032 | | 22,070,580 |
| 18,619,777 | | | 29,990 | | 18,649,767 |
| 73,031,458 | 260,766 | | 7,264 | | 73,299,488 |
| 18,009,500 | 75,706 | | 576,708 | | 18,661,914 |
| 19,510,810 | 3,394 | | 617,771 | | 20,131,976 |
| 17,087,972 | | | 31 | | 17,088,003 |
| <u>\$ 864,095,846</u> (5,323,961) | <u>\$ 1,197,591</u> | <u>\$ 0</u> | <u>\$ 8,389,497</u> | <u>\$ (5,845)</u> | <u>\$ 873,677,088</u> (5,323,961) |
| | | 63,393 | (35,209) | 46,824 | 75,007 |
| <u>\$ 1,287,378,287</u> | <u>\$ 7,618,465</u> | <u>\$ 9,159,161</u> | <u>\$ 13,477,921</u> | <u>\$ 0</u> | <u>\$ 1,317,633,834</u> |

DEPARTMENT OF CORRECTIONS
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1997

| Grantor Agency/ Federal Assistance Program Title | Grant/ Contract Number | CFDA Program Number | * | Pass Through Entity | Directly Expended by Department |
|--|------------------------------|---------------------------|----|--------------------------------|---------------------------------------|
| <u>Financial Assistance</u> | | | | | |
| <u>U.S. Department of Agriculture</u> | | | | | |
| National School Lunch Program | | 10.555 | ** | Department of Education | <u>\$ 390,265</u> |
| Total U.S. Department of Agriculture | | | | | <u>\$ 390,265</u> |
| <u>U.S. Department of Justice (A)</u> | | | | | |
| State Criminal Alien Assistance Program | 97-AP-VX-0066 | 16.572 | ** | | \$ 2,193,811 |
| Byrne Formula Grant Program | | 16.579 | ** | Department of Community Health | 302,305 |
| Residential Substance Abuse Treatment for State Prisoners | | 16.593 | | Department of Community Health | <u>210,815</u> |
| Total U.S. Department of Justice | | | | | <u>\$ 2,706,931</u> |
| <u>U.S. Department of Education</u> | | | | | |
| Adult Education - State Grant Program | | 84.002 | ** | Department of Education | \$ 1,538,757 |
| Title I - Program for Neglected and Delinquent Children | | 84.013 | ** | Department of Education | 589,431 |
| Special Education - Grants to States | | 84.027 | | Department of Education | 67,397 |
| Vocational Education - Basic Grants to States | | 84.048 | | Department of Education | 167,500 |
| Literacy Programs for Prisoners | V255A40117-96 | 84.255 | | | <u>85,341</u> |
| Total U.S. Department of Education | | | | | <u>\$ 2,448,426</u> |
| <u>U.S. Department of Health and Human Services</u> | | | | | |
| Block Grants for Prevention and Treatment of Substance Abuse | | 93.959 | ** | Department of Community Health | <u>\$ 563,000</u> |
| Total U.S. Department of Health and Human Services | | | | | <u>\$ 563,000</u> |
| Total Financial Assistance | | | | | <u>\$ 6,108,622</u> |
| <u>Nonfinancial Assistance</u> | | | | | |
| <u>U.S. Department of Agriculture</u> | | | | | |
| Food Distribution | | 10.550 | | Department of Education | <u>\$ 236,031</u> |
| Total U.S. Department of Agriculture | | | | | <u>\$ 236,031</u> |
| Total Nonfinancial Assistance | | | | | <u>\$ 236,031</u> |
| Total Federal Assistance | | | | | <u>\$ 6,344,653</u> |

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

** Major program, as defined by the Single Audit Act.

(A) The schedule does not include awards from the U.S. Department of Justice for the Violent Offender Incarceration and Truth-in-Sentencing (VOI-TIS) Incentive Grant Program. The Department of Corrections was awarded approximately \$34.6 million during fiscal year 1996-97 for a project period from September 30, 1996 to September 28, 2002. However, the Department did not spend any of these grant funds through fiscal year 1996-97. The Department estimates that it will accumulate approximately \$94.3 million of VOI-TIS Incentive Grant Program funding through fiscal year 2000. The Department's future plans for the VOI-TIS Program include the construction of new prisons, expansion of existing adult facilities, and lease of privately owned/operated adult and youth facilities.

(B) The "Directly Expended by Department" amount reflects the value assigned by the federal government to food commodities used by the Department of Corrections during the fiscal year.

DEPARTMENT OF CORRECTIONS
Schedule of Federal Financial Assistance
Fiscal Year Ended September 30, 1996

| Grantor Agency/ Federal Assistance Program Title | Grant/ Contract Number | CFDA * Program Number | Pass Through Entity | Directly Expended by Department |
|---|------------------------------|-----------------------------|-------------------------------------|---------------------------------------|
| <u>Financial Assistance</u> | | | | |
| <u>U.S. Department of Agriculture</u> | | | | |
| National School Lunch Program | | 10.555 | Department of Education | \$ <u>235,621</u> |
| Total U.S. Department of Agriculture | | | | \$ <u>235,621</u> |
| <u>U.S. Department of Justice</u> | | | | |
| State Criminal Alien Assistance Program | 96-AP-TX-0018 | 16.572 | ** | \$ 1,900,000 |
| Byrne Formula Grant Program | | 16.579 | Department of Management and Budget | <u>249,153</u> |
| Total U.S. Department of Justice | | | | \$ <u>2,149,153</u> |
| <u>U.S. Department of Education</u> | | | | |
| Adult Education - State Grant Program | | 84.002 | ** | \$ 348,695 |
| Title I - Program for Neglected and Delinquent Children | | 84.013 | ** | 408,760 |
| Special Education - Grants to States | | 84.027 | | 70,667 |
| Vocational Education - Basic Grants to States | | 84.048 | Department of Education | 123,320 |
| Literacy Programs for Prisoners | V255A40117-96 | 84.255 | | <u>176,838</u> |
| Total U.S. Department of Education | | | | \$ <u>1,128,280</u> |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| Block Grants for Prevention and Treatment of Substance Abuse | | 93.959 | ** | \$ <u>563,000</u> |
| Total U.S. Department of Health and Human Services | | | | \$ <u>563,000</u> |
| Total Financial Assistance | | | | \$ <u>4,076,054</u> |
| <u>Nonfinancial Assistance</u> | | | | |
| <u>U.S. Department of Agriculture</u> | | | | |
| Food Distribution | | 10.550 | ** | \$ <u>528,925</u> |
| Total U.S. Department of Agriculture | | | | \$ <u>528,925</u> |
| Total Nonfinancial Assistance | | | | \$ <u>528,925</u> |
| Total Federal Assistance | | | | \$ <u>4,604,979</u> |

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

** Major program, as defined by the Single Audit Act.

(A) The "Directly Expended by Department" amount reflects the value assigned by the federal government to food commodities used by the Department of Corrections during the fiscal year.

SUPPLEMENTAL INFORMATION

DEPARTMENT OF CORRECTIONS
 Schedule of Questioned Costs
 Fiscal Years Ended September 30, 1997 and 1996

| <u>Program or Grant/Contract Number</u> | <u>Finding</u> | <u>Questioned Costs</u> |
|---|--|-------------------------|
| <u>U.S. Department of Education</u> | | |
| 1. Adult Education - State Grant Program CFDA # 84.002 | DOC did not comply with the Common Rule when procuring fiscal year 1996-97 and 1995-96 goods and services. (Finding 5) | \$ 591,668 |
| 2. Adult Education - State Grant Program CFDA # 84.002 | DOC did not maintain documentation of authorization for a reallocation of funding for the fiscal year 1995-96 payroll. (Finding 5) | (10,900) |
| 3. Adult Education - State Grant Program CFDA # 84.002 | DOC did not properly capitalize equipment purchases as required by OMB Circular A-87 and the State's General Fixed Assets Accounting Manual. In addition, DOC did not maintain property records for \$15,918 of the equipment purchases. (Finding 5) | 20,129 |
| 4. Adult Education - State Grant Program CFDA # 84.002 | DOC improperly obligated fiscal year 1996-97 grant funds. DOC incorrectly recorded an encumbrance carryforward that did not meet encumbrance criteria. | 2,196 |
| 5. Adult Education - State Grant Program CFDA # 84.002 | DOC did not properly obligate fiscal year 1996-97 grant funds. DOC did not establish an account payable for a fiscal year 1996-97 purchase. DOC improperly charged this purchase to fiscal year 1997-98 grant funds. | (6,466) |
| 6. Title I - Program for Neglected and Delinquent Children CFDA # 84.013 | DOC charged unallowable retirement expenditures in fiscal year 1996-97 to the program. | 168 |
| 7. Title I - Program for Neglected and Delinquent Children CFDA # 84.013 | DOC did not comply with the Common Rule when procuring fiscal year 1995-96 goods and services. (Finding 5) | 63,545 |
| <u>U.S. Department of Justice</u> | | |
| 8. Byrne Formula Grant Program CFDA # 16.579 | DOC incorrectly wrote off a fiscal year 1995-96 account payable for the Short Terms of Punishment (STOP) Program to Field Operations Administration - parole and probation operations in fiscal year 1996-97. | (15,000) |

This schedule continued on next page.

DEPARTMENT OF CORRECTIONS
 Schedule of Questioned Costs
Fiscal Years Ended September 30, 1997 and 1996
 Continued

| <u>Program or Grant/Contract Number</u> | <u>Finding</u> | <u>Questioned Costs</u> |
|---|--|-----------------------------|
| <u>U.S. Department of Agriculture</u> | | |
| 9. National School Lunch Program CFDA # 10.555 | DOC overestimated fiscal year 1995-96 program obligations. DOC did not return funding received for these overestimated obligations in fiscal year 1996-97. Program regulation requires the recovery of funds in excess of obligation at the end of each fiscal year. | \$ 8,716 |
| Total Questioned Costs | | <u>\$ 686,422</u> |
| Total Negative Questioned Costs | | <u>\$ (32,365)</u> |

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

"Questioned Costs" are amounts potentially due to the federal government because of reimbursements for unallowable, undocumented, or unreasonable costs or amounts potentially due from the federal government for reimbursements that were not claimed or were claimed for less than the eligible amount. Amounts potentially due from the federal government are presented as (negative) questioned costs.

Glossary of Acronyms and Terms

| | |
|----------------------------|--|
| ABE Program | Adult Education - State Grant Program. |
| CFDA | <i>Catalog of Federal Domestic Assistance.</i> |
| Codification | <i>Codification of Governmental Accounting and Financial Reporting Standards.</i> |
| Common Rule | "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments." |
| DOC | Department of Corrections. |
| financial audit | An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited agency are fairly presented in conformity with generally accepted accounting principles. |
| GASB | Governmental Accounting Standards Board. |
| internal control structure | The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported. |
| material noncompliance | Violations of laws and regulations that could have a direct and material effect on major federal financial assistance programs or on financial schedule amounts. |
| material weakness | A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce |

to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules or in the administration of a major federal assistance program, would not be prevented or detected.

| | |
|---------------------------|--|
| mission | The agency's main purpose or the reason the agency was established. |
| negative questioned costs | Amounts that are potentially due to the State from the federal government. |
| OMB | federal Office of Management and Budget. |
| questioned costs | Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government. |
| reportable condition | A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure. |
| RSAT | residential substance abuse treatment. |
| SFFA | schedule of federal financial assistance. |
| Single Audit | A financial audit performed in accordance with the Single Audit Act of 1984 that is designed to meet the needs of all federal grantor agencies and other financial report users. A Single Audit is a financial audit which requires additional study and evaluation of the internal control structure and testing of compliance with laws and regulations relevant to federal assistance programs. |

SOMCAFR *State of Michigan Comprehensive Annual Financial Report.*

STOP Short Terms of Punishment.

Title I Program Title I - Program for Neglected and Delinquent Children.