

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

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1995 through September 30, 1997

## EXECUTIVE DIGEST

# DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services (CIS) for the period October 1, 1995 through September 30, 1997.

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### AUDIT PURPOSE

This financial audit of CIS 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*.

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### BACKGROUND

CIS was established on May 15, 1996 by Executive Order 1996-2, which merged the former Departments of Commerce and Labor and other licensing and regulatory agencies from the former Departments of Mental Health, Public Health, and Social Services. CIS's overall mission\* is to support the health, safety, economic, and cultural well-being of the public through services to and regulation of the activities of organizations and individuals. The Finance and Administrative Services Bureau is responsible for accounting and federal grant management.

\* See glossary on page 49 for definition.

For fiscal year 1996-97, CIS's General Fund expenditures and operating transfers were \$210,768,522. As of September 30, 1997, CIS had 2,969 full-time employees.

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**AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS**

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

**Conclusion:** Our assessment of CIS's internal control structure did not disclose any material weaknesses\*. However, we noted reportable conditions\* relating to the Personnel-Payroll Information System for Michigan (PPRISM) transaction controls, allocation of payroll charges, and monitoring of subrecipient\* audit reports (Findings 1 through 3).

In addition, our assessment indicated that CIS 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.

**Noteworthy Accomplishments:** During our audit period, CIS completed transition to its present day operations by combining various parts of the previous Departments of Commerce, Labor, Mental Health, Public Health, and Social Services. At the same time, CIS implemented the State's new accounting system, the Michigan Administrative Information Network. CIS's planning, foresight, and experience enabled it to develop and implement the transition with very minimal disruptions to

\* See glossary on page 49 for definition.

its internal accounting and administrative control structure.

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

**Conclusion:** Our assessment of CIS's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on CIS's financial schedules or any of its major federal financial assistance programs.

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

**Conclusion:** We expressed an unqualified opinion on the financial schedules.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Department of Consumer and Industry Services 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.

The following CIS operations and related funds, except centralized PPRISM controls, are audited and reported on

separately and were excluded from the scope of this audit: Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Liquor Purchase Revolving Fund; Michigan Strategic Fund; Second Injury Fund; Silicosis, Dust Disease, and Lodging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; Insurance Carrier Deposits Fund; and Michigan State Housing Development Authority.

Our audit objective for the assessment of the internal control structure included an evaluation of CIS'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*.

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

Our audit report includes 3 findings and 4 corresponding recommendations. CIS agreed with the 4 recommendations and informed us that it has implemented or will implement all of them.

Our prior Single Audit\* reports of the Departments of Commerce and Labor contained 9 recommendations. CIS had complied with 3 of these prior audit recommendations. The other 6 recommendations related to programs that were transferred to the Michigan Jobs Commission or the Family Independence Agency.

\* See glossary on page 49 for definition

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services 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 Consumer and Industry Services' financial schedules and notes to financial schedules; supplemental financial schedules; a schedule of questioned costs and a schedule of immaterial noncompliance, 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

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## Description of Agency

The Department of Consumer and Industry Services (CIS) was established on May 15, 1996 by Executive Order 1996-2, which merged the former Departments of Commerce and Labor and other licensing and regulatory agencies from the former Departments of Mental Health, Public Health, and Social Services. CIS's overall mission is to support the health, safety, economic, and cultural well-being of the public through services to and regulation of the activities of organizations and individuals.

CIS is organized into 25 regulatory and service agencies:

1. Council for Arts and Cultural Affairs
2. Office of Commercial Services
3. Bureau of Construction Codes
4. Corporation, Securities, and Land Development Bureau
5. Bureau of Employment Relations
6. Financial Institutions Bureau
7. Office of Fire Safety
8. Office of Health Services
9. Bureau of Health Systems
10. Office of Hearings
11. Insurance Bureau
12. Office of Legal Services
13. Liquor Control Commission
14. Michigan Employment Security Board of Review
15. Michigan State Fair and Exposition Center
16. Michigan State Housing Development Authority
17. Michigan Tax Tribunal
18. Public Service Commission
19. Bureau of Regulatory Services
20. Bureau of Safety and Regulation
21. Unemployment Agency
22. Office of Urban Programs
23. Workers' Compensation Appellate Commission

24. Workers' Compensation Board of Magistrates
25. Bureau of Workers' Disability Compensation

These agencies, in turn, are supported by 8 administrative function units:

- (1) Affirmative Action and Equal Employment Opportunity Office
- (2) Chief Information Office
- (3) Office of Contract and Grant Administration
- (4) Finance and Administrative Services Bureau
- (5) Office of Human Resources
- (6) Internal Audit
- (7) Media Relations and Communications
- (8) Office of Policy and Legislative Affairs

In fiscal year 1995-96, CIS provided accounting and administrative support services for the federal State Energy Conservation grant, Promotion of the Arts - State and Regional Program Basic State and Underserved grants, Occupational Safety and Health - State Assistance grant, and Supplemental Security Income grant. These grants were major federal financial assistance grants in fiscal year 1995-96 and administration of these grants related to fiscal year 1995-96 was included in the scope of this audit. Also, CIS provided accounting and administrative support services in fiscal year 1995-96 for the Rehabilitation Services - Vocational Rehabilitation Grants to States grant, which was transferred to the Family Independence Agency (FIA) by Executive Order 1996-2. This grant was a major federal financial assistance grant in fiscal year 1995-96 for CIS and a major federal financial assistance grant in fiscal year 1996-97 for FIA. The grant was included in the scope of the FIA Single Audit for the period October 1, 1994 through September 30, 1996.

In fiscal year 1996-97, CIS provided accounting and administrative support services for the federal Occupational Safety and Health - State Assistance grants, OSHA/Consultation Agreements grants, Foster Care - Title IV-E grant, Social Services Block Grant, State Survey and Certification of Health Care Providers and Suppliers grant, and Medical Assistance Program grant. These grants were major federal financial assistance grants in fiscal year 1996-97 and administration of these grants related to fiscal year 1996-97 was included in the scope of this audit.

CIS's major source of financing for operations is the State General Fund. In addition, CIS administers the Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Liquor Purchase Revolving Fund; Michigan Strategic Fund; Second Injury Fund; Silicosis, Dust Disease, and Lodging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; and Insurance Carrier Deposits Fund, which are audited and reported on separately. Also, CIS provided administrative support to the Michigan State Housing Development Authority (MSHDA), which received separate federal grants that it administers as part of its programs. MSHDA receives an annual independent audit of its financial operations and a biennial Single Audit.

For fiscal year 1996-97, CIS's General Fund expenditures and operating transfers were \$210,768,522. As of September 30, 1997, CIS had 2,969 full-time employees.

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

### Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services (CIS), had the following objectives:

1. To assess the adequacy of CIS's internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.
2. To assess CIS's compliance with both State and federal laws and regulations that could have a material effect on either CIS's financial schedules or any of its major federal financial assistance programs.
3. To audit CIS'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 CIS'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 Consumer and Industry Services 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.

The following CIS operations and related funds, except centralized Personnel-Payroll Information System for Michigan (PPRISM) controls, are audited and reported on separately and were excluded from the scope of this audit: Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund;

Homeowner Construction Lien Recovery Fund; Liquor Purchase Revolving Fund; Michigan Strategic Fund; Second Injury Fund; Silicosis, Dust Disease, and Lodging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; Insurance Carrier Deposits Fund; and Michigan State Housing Development Authority.

We considered CIS's internal control structure policies and procedures for its federal financial assistance programs and assessed CIS'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. CIS's major programs are identified on the schedule of federal financial assistance.

#### Agency Responses and Prior Audit Follow-up

Our audit report includes 3 findings and 4 corresponding recommendations. CIS agreed with the 4 recommendations and informed us it has implemented or will implement all of them.

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 CIS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

Our prior Single Audit reports of the Departments of Commerce and Labor contained 9 recommendations. CIS had complied with 3 of these prior audit recommendations. The other 6 recommendations related to programs that were transferred to the Michigan Jobs Commission or the Family Independence Agency.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## INTERNAL CONTROL STRUCTURE

### COMMENT

**Audit Objective:** To assess the adequacy of the Department of Consumer and Industry Services' (CIS's) internal control structure, including applicable administrative controls related to the management of federal financial assistance programs.

**Conclusion:** Our assessment of CIS's internal control structure did not disclose any material weaknesses. However, we noted reportable conditions relating to the Personnel-Payroll Information System for Michigan (PPRISM) transaction controls, allocation of payroll charges, and monitoring of subrecipient audit reports.

In addition, our assessment indicated that CIS 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.

**Noteworthy Accomplishments:** During our audit period, CIS completed transition to its present day operations by combining various parts of the previous Departments of Commerce, Labor, Mental Health, Public Health, and Social Services. At the same time, CIS implemented the State's new accounting system, the Michigan Administrative Information Network. CIS's planning, foresight, and experience enabled it to develop and implement the transition with very minimal disruptions to its internal accounting and administrative control structure.

### FINDING

#### 1. PPRISM Transaction Controls

CIS did not develop and implement a proper internal control structure for PPRISM functions. A proper internal control structure is critical to help prevent and detect, on a timely basis, the processing of erroneous and unauthorized transactions.

Our review of PPRISM functions disclosed the following internal control weaknesses:

- a. Office of Human Resources (OHR) staff assignments did not provide for an adequate separation of duties. Various sections of the PPRISM Procedures Manual identify specific duties for personnel aides, designated control staff, and transaction operators. However, OHR staff perform all personnel-payroll functions for specific operating units within CIS:
  - (1) PPRISM transaction control logs were prepared and reconciled by someone who also had PPRISM entry capabilities. To help ensure that only authorized transactions are processed, PPRISM Procedures Manual section 2.3 requires that a designated control person, who does not have the capability to process transactions on PPRISM, record all authorized transactions in a transaction control log before a transaction operator processes the data. On the following day, the control person is to total the transactions on the control log, reconcile the control log to the PPRISM control report, and initial the control log after it is reconciled.
  - (2) CIS allowed timekeepers and certifiers to record or certify their own time on biweekly time and attendance reports (TARs). For 7 of 10 TARs reviewed, timekeepers entered their own time. Also, 2 of the 10 TARs were certified by an individual appearing on the TAR. To help ensure a proper separation of duties, timekeepers and certifiers should not appear on the TARs that they are responsible for maintaining.
  - (3) CIS allowed OHR data entry personnel to enter their own transactions into PPRISM. Our review of CIS personnel with data entry capabilities disclosed 29 instances in which an individual entered PPRISM transactions for themselves. To help ensure that only appropriate transactions are processed, data entry personnel should not be allowed to enter transactions for themselves.
- b. CIS staff did not independently reconcile the PPRISM biweekly transaction (PE-110) reports with source documents. PE-110 reconciliations are performed by CIS staff responsible for processing PPRISM transactions.

To help ensure that transactions are accurately processed, the PE-110 report should be reconciled with source documents by a control person who does not have the capability to process PPRISM transactions.

- c. CIS staff did not reconcile the PPRISM biweekly hours entered (PR-180) report with time and attendance records.

To provide a proper PPRISM internal control structure, the Office of Financial Management, Department of Management and Budget, instructed all departments and agencies to ensure that the PR-180 reports were reconciled with time and attendance records by employees who are not responsible for processing PPRISM transactions.

OHR staff informed us that these reconciliations were not performed during our audit period.

- d. CIS staff did not ensure that access rights to PPRISM were removed from employees after their PPRISM-related responsibilities ended.

We found that 14 individuals who no longer had any PPRISM-related duties still had access rights to PPRISM. These included retirees, individuals who had transferred to other departments, Accident Fund employees, and individuals whose job duties had changed. Limiting PPRISM access rights to only those employees who are responsible for processing PPRISM transactions reduces the possibility that unauthorized transactions could be processed.

CIS implemented the State's newly designed Data Collection and Distribution System in March 1998. This new System provides more efficient and accurate entry and processing of payroll transactions. The new System also provides opportunity for improved controls over payroll processing; however, CIS needs to resolve the internal control weakness noted in this finding in the context of the new System.

## **RECOMMENDATION**

We recommend that CIS develop and implement a proper internal control structure for PPRISM functions.

## **AGENCY PRELIMINARY RESPONSE**

CIS agrees and informed us that it has implemented several internal controls that address the finding in the context of the new Data Collection and Distribution System (DCDS). However, in reference to the separation of duties, CIS feels that the benefit of the internal controls gained in this situation would be outweighed by the additional time consumed in the process. CIS has implemented internal controls that it feels compensates for the lack of adequate separation of duties.

## **FINDING**

### **2. Allocation of Payroll Charges**

CIS's internal control structure did not ensure that personnel-payroll cost distributions to State and federal programs were documented in accordance with federal requirements.

U.S. Office of Management and Budget Circular A-87, Attachment B, requires employee salaries and wages that are chargeable to more than one grant program or other cost objectives to be supported by appropriate time distribution records.

Our review of personnel-payroll cost distributions for the major federal programs noted:

- a. The personnel-payroll cost distributions for the 11 State Energy Conservation grant employees were based on management estimates and judgment. CIS staff did not maintain documentation to support the estimates or judgments. CIS staff also did not do a time study or complete biweekly distribution reports to allocate their time.

Eight of the 11 staff were supported by more than one State and federal grant program. CIS charged the State Energy Conservation grant \$212,119 for

payroll for these 8 employees in fiscal year 1995-96 (see schedule of questioned costs\* item 12).

- b. The Occupational Safety and Health - State Assistance grants and the OSHA/Consultation Agreements grants had employees assigned to both federal programs who also worked on the Michigan Safety and Health Administration Program, a State-funded program:
  - (1) Fifteen (58%) of 26 staff supported by more than one federal or State program did not complete biweekly distribution reports to document time spent on different programs. This resulted in questioned costs to the Occupational Safety and Health - State Assistance grant of \$56,865 in fiscal year 1995-96 and \$144,606 in fiscal year 1996-97 (see schedule of questioned costs items 1 and 3). This, also, resulted in a questioned cost to the OSHA/Consultation Agreements grants of \$1,410 in fiscal year 1995-96 and \$14,126 in fiscal year 1996-97 (see schedule of questioned costs items 4, 5, and 6).
  - (2) In fiscal year 1995-96, employees of the CIS director's office worked directly on federal program activities and were charged directly to the Occupational Safety and Health - State Assistance grants. These employees' salaries were also included in the calculation of the indirect cost rate for the program. The employees did not document the time spent on direct vs. indirect activities resulting in questioned costs of \$10,537 (see schedule of questioned costs item 1).
  - (3) CIS transferred payroll costs for employees who worked on the OSHA/Consultation Agreements grants from a 90% grant to a 100% grant. These employees worked on both programs and did not document the time spent on either program. This resulted in a \$73,639 questioned cost year for fiscal year 1996-97 (see schedule of questioned costs item 7).

\* See glossary on page 49 for definition.

## **RECOMMENDATION**

We recommend that CIS improve its internal control structure to ensure that personnel-payroll cost distributions to State and federal programs are documented in accordance with federal requirements.

## **AGENCY PRELIMINARY RESPONSE**

CIS agrees and informed us that it conducted an analysis and verified that the employees in question were working on federal reimbursable assignments during the time periods cited in the audit and the charges made to specific grants were accurate. However, individual time records were not being properly maintained during the grant period. Corrective action has been implemented.

## **FINDING**

### **3. Monitoring of Subrecipient Audit Reports**

CIS did not establish and maintain an effective internal control structure to reasonably ensure that it obtained and reviewed audit reports of its subrecipients as required by the Single Audit Act of 1984.

During our audit period, the Single Audit Act required the subrecipients that received more than \$25,000 of assistance from CIS in a fiscal year to obtain a Single Audit. The Act also requires CIS to review the Single Audit reports.

We reviewed programs with subrecipients to determine whether program staff ensured that subrecipients that received over \$25,000 had obtained Single Audits:

#### **a. Energy Conservation for Institutional Buildings**

This program had 9 subrecipients that received over \$25,000 in fiscal year 1995-96. CIS did not verify that the 9 subrecipients obtained Single Audits.

#### **b. State Energy Conservation and Energy Conservation for Institutional Buildings**

These programs were combined in fiscal year 1996-97. They had 9 subrecipients that received over \$25,000 in fiscal year 1996-97. CIS did not verify that 8 of the 9 subrecipients obtained Single Audits.

c. Promotion of the Arts - State and Regional Program - Basic State and Underserved

This program had 1 subrecipient that received over \$25,000 in fiscal year 1995-96. CIS did not verify that the subrecipient obtained a Single Audit.

CIS's failure to obtain and review subrecipients' Single Audit reports subjects it to potential monetary sanctions by the federal government of approximately \$950,000, the amount distributed to subrecipients for these programs.

Reviewing subrecipient Single Audit reports has been the generally accepted method for monitoring subrecipient compliance with federal requirements. The revised U.S. Office of Management and Budget Circular A-133 increases the threshold from \$25,000 to \$300,000 for subrecipient Single Audit requirements. However, it does not diminish the need for subrecipient monitoring. CIS will remain responsible for monitoring subrecipients even below the \$300,000 Single Audit threshold.

### **RECOMMENDATIONS**

We recommend that CIS establish and maintain an effective internal control structure to reasonably ensure that it obtains and reviews audit reports of its subrecipients as required by the Single Audit Act of 1984.

We also recommend that CIS obtain the Single Audits for subrecipients that received over \$25,000 in fiscal years 1996-97 and 1995-96.

### **AGENCY PRELIMINARY RESPONSE**

CIS agrees and informed us that it will amend its procedures to ensure that grantees are aware of the need to submit their Single Audits when necessary and will ensure that required audit reports are collected and reviewed.

CIS also informed us that it will attempt to obtain the required Single Audits for subrecipients that received over \$25,000 in fiscal years 1996-97 and 1995-96.

## COMPLIANCE WITH LAWS AND REGULATIONS

### COMMENT

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

**Conclusion:** Our assessment of CIS's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on CIS's financial schedules or any of its major federal financial assistance programs.

## FINANCIAL ACCOUNTING AND REPORTING

### COMMENT

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

**Conclusion:** We expressed an unqualified opinion on the financial schedules.

Independent Auditor's Report on  
the Internal Control Structure

August 7, 1998

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated August 7, 1998. We have also audited the Department of Consumer and Industry Services' compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 7, 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 Consumer and Industry Services 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
- Federal grant management reporting

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
- Subrecipient monitoring
- Reporting

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 Consumer and Industry Services expended 84% and 86%, respectively, of its total federal financial 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 1 through 3.

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 believe none of the reportable conditions described above is a material weakness.

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

August 7, 1998

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated August 7, 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 Consumer and Industry Services 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 Consumer and Industry Services 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; reporting; claims for advances and reimbursements; amounts claimed or used for matching; and subrecipient monitoring that are applicable to 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.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the findings and recommendations and/or the accompanying schedule of questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Department of Consumer and Industry Services complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching; reporting; claims for advances and reimbursements; amounts claimed or used for matching; and subrecipient monitoring that are applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996.

In connection with our audit of the financial schedules of the Department for the fiscal years ended September 30, 1997 and September 30, 1996 and with our consideration of the Department's internal control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended September 30, 1997 and September 30, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowable costs that are applicable to those transactions. Also, 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 and the requirements applicable to the nonmajor programs, 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.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second 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 Consumer and Industry Services had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of questioned costs and schedule of immaterial noncompliance.

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

August 7, 1998

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

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 Consumer and Industry Services for the fiscal years ended September 30, 1997 and September 30, 1996. These financial schedules are the responsibility of the Department of Consumer and Industry Services 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 Consumer and Industry Services 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 schedule of General Fund assets and liabilities 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 August 7, 1998 on our consideration of the Department of Consumer and Industry Services' internal control structure and a report dated August 7, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of General Fund Revenue and Operating Transfers  
Fiscal Years Ended September 30  
(In Thousands)

	<u>1997</u>	<u>1996</u>
REVENUE		
Taxes:		
Beer and wine	\$ 48,307	\$ 48,748
Insurance company premium tax	6,394	7,478
Liquor tax	<u>23,028</u>	<u>23,282</u>
Total Taxes Revenue	<u>\$ 77,729</u>	<u>\$ 79,508</u>
Federal:		
Department of Education	\$	\$ 9,916
Department of Energy	2,024	1,154
Department of Health and Human Services	23,150	649
Department of Housing and Urban Development	187	216
Department of Justice		32
Department of Labor	9,191	5,439
Department of Transportation	214	181
Other federal revenue	<u>1,472</u>	<u>1,095</u>
Total Federal Revenue	<u>\$ 36,238</u>	<u>\$ 18,682</u>
Local Units	\$	\$ 30
Services	358	184
Licenses and permits	111,322	107,040
Miscellaneous	<u>20,474</u>	<u>17,173</u>
Total Revenue	<u>\$ 246,121</u>	<u>\$ 222,615</u>
OPERATING TRANSFERS		
Statutory transfers from Liquor Purchase Revolving Fund	\$ 91,126	\$ 94,600
Transfers from other funds/authorities	<u>6,434</u>	<u>31,299</u>
Total Operating Transfers	<u>\$ 97,560</u>	<u>\$ 125,899</u>
Total Revenue and Operating Transfers	<u>\$ 343,681</u>	<u>\$ 348,514</u>

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

**DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES**  
**Schedule of General Fund Sources and Disposition of Authorizations**  
**Fiscal Years Ended September 30**

	<u>1997</u>	<u>1996</u>
<b>SOURCES OF AUTHORIZATIONS</b>		
General purpose appropriations	\$ 69,976,700	\$ 52,303,900
Budgetary transfers in (out)	(2,659)	
Balances carried forward	44,035,797	36,477,909
Restricted financing sources	<u>145,742,779</u>	<u>160,237,039</u>
<b>Total</b>	<b><u>\$ 259,752,617</u></b>	<b><u>\$ 249,018,848</u></b>
 <b>DISPOSITION OF AUTHORIZATIONS</b>		
Expenditures and operating transfers out	<u>\$ 210,768,522</u>	<u>\$ 202,245,671</u>
Balances carried forward:		
Multi-year projects	4,734,023	1,180,511
Encumbrances	1,194,409	849,824
Restricted revenue - authorized	118,451	192,673
Restricted revenue - not authorized	<u>40,565,819</u>	<u>41,754,459</u>
<b>Total balances carried forward</b>	<b>\$ 46,612,702</b>	<b>\$ 43,977,466</b>
Balances lapsed	<u>2,371,393</u>	<u>2,795,710</u>
 <b>Total</b>	 <b><u>\$ 259,752,617</u></b>	 <b><u>\$ 249,018,848</u></b>

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 Consumer and Industry Services for the fiscal years ended September 30, 1997 and September 30, 1996. The financial transactions of the Department 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 the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Postemployment Benefits, Compensated Absences, General Long-Term Obligations, and Contingencies and Commitments.

For purposes of presenting the financial transactions of the Department in the accompanying financial schedules, the following entities and/or funds have been excluded from the Department's reporting entity:

- (1) The proprietary operations of the Liquor Control Commission, which are accounted for in the Liquor Purchase Revolving Fund, an enterprise fund.
- (2) The Michigan State Housing Development Authority (MSHDA), including its federal financial assistance programs, which is accounted for in the State's General Fund. Federal revenue and deferred revenue pertaining to MSHDA federal programs are not included in the accompanying financial schedules. MSHDA issues audited financial statements annually and receives an independent Single Audit biennially.

- (3) The proprietary operations of the Michigan Strategic Fund, an enterprise fund. The Michigan Strategic Fund issues separately audited financial statements annually.
- (4) The various trust funds: Safety Education and Training Fund; Uninsured Employer's Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Lodging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Worker's Disability Compensation - Multiple Trust Funds; and Insurance Carrier Deposits Fund. These funds are administered by the Department and are audited and reported on separately.

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 the Department of Consumer and Industry Services' General Fund accounts. 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.

Note 2 Accounting Change

In prior fiscal years, accounting system limitations prevented the allocation of multi-fund appropriations into more than one fund. Many appropriations and related expenditures of the special revenue fund category were recorded in the General Fund and were then financed by operating transfers from the related special revenue fund. As of October 1, 1996, multi-fund appropriations and their related expenditures were allocated directly to individual funds. For fiscal year 1995-96, *SOMCAFR* noted this change in Note 4. The Department did

not implement this change until fiscal year 1996-97. The effect of this change on the Department's schedules was to reduce fiscal year 1996-97 expenditures and operating transfers in by approximately \$25 million in the General Fund.

Note 3 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 the Department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were 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. Multi-year projects balances: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- 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. 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. Examples of significant carry forwards of this type are insurance receivership revenue and Liquor Control Commission copy fee revenue.
- h. 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. Examples of significant carry forwards of this type are corporate fee revenue, remonumentation fee revenue, and Mobile Home Commission fee revenue.
- i. 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.

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SUPPLEMENTAL  
FINANCIAL SCHEDULES

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of General Fund Assets and Liabilities  
As of September 30  
(In Thousands)

	<u>1997</u>	<u>1996</u>
<b>ASSETS</b>		
Due from federal agencies	\$ 5,273	\$ 8,011
Due from local units	\$ 21	\$ 1,022
Taxes receivable	\$ 2,276	\$ 3,665
Due from component units	\$ 1,154	\$ 1,409
Other current assets	\$ 6,010	\$ 6,625
<b>LIABILITIES</b>		
Accounts payable	\$ 21,465	\$ 23,835
Deferred revenue	\$ 683	\$ 3,884
Amounts due to component units	\$ 29	\$ 29
Due to other funds	\$ 75	\$ 53

This schedule presents certain General Fund assets and liabilities that result from the operations of, and are the responsibility of, the Department of Consumer and Industry Services. The schedule excludes certain other assets, such as equity in Common Cash and cash in transit, and certain liabilities, such as warrants outstanding, which are accounted for centrally by the State.

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Federal Financial Assistance  
Fiscal Year Ended September 30, 1997

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA Program Number	*	Award Period	Amount of Award	Amounts Expended		
						Directly Expended by Department	Distributed to Subrecipients	Total
<b>U.S. Department of Labor</b>								
Compensation and Working Conditions Data	W9J7814261	17.005		10/01/96-09/30/97	\$ 170,000	\$ 166,431	\$	\$ 166,431
Occupational Safety and Health - State Assistance - Safety	50F6-0052	17.500	**	10/01/95-12/31/96	\$ 5,253,494	\$ 133,252	\$	\$ 133,252
Occupational Safety and Health - State Assistance - Health	50F6-0052	17.500	**	10/01/95-02/31/96	\$ 155,951	155,951		155,951
Occupational Safety and Health - State Assistance	50F7-0052	17.500	**	10/01/96-12/31/97	\$ 8,093,000	7,861,310		7,861,310
Total Occupational Safety and Health						\$ 8,150,513	\$ 0	\$ 8,150,513
OSHA/Consultation Agreements - Safety	W9F6-0952	17.504	**	10/01/95-12/31/96	\$ 502,700	\$	\$	\$ 0
OSHA/Consultation Agreements - Health	W9F6-1952	17.504	**	10/01/95-12/31/96	\$ 6,204	6,204		6,204
OSHA/Consultation Agreements - Safety	W9F7-0952	17.504	**	10/01/96-09/30/97	\$ 576,000	420,319		420,319
OSHA/Consultation Agreements - Health	W9F7-1952	17.504	**	10/01/96-09/30/97	\$ 672,000	569,142		569,142
OSHA/Consultation Agreements - Data Collection	W9F6-3752	17.504	**	10/01/96-09/30/97	\$ 89,802	89,802		89,802
Total Consultation Agreements						\$ 1,085,467	\$ 0	\$ 1,085,467
Mine Safety and Health Grants	96ERR00019	17.600		10/01/95-09/30/96	\$ 118,247	\$ 26,565	\$	\$ 26,565
Mine Safety and Health Grants	97ERR00019	17.600		10/01/96-09/30/97	\$ 112,000	110,373		110,373
Total Mine Safety and Health Grants						\$ 136,938	\$ 0	\$ 136,938
<b>Total U.S. Department of Labor</b>						<b>\$ 9,539,349</b>	<b>\$ 0</b>	<b>\$ 9,539,349</b>
<b>U.S. Department of Transportation</b>								
Pipeline Safety - 1996 Grant	DOT-GB-60020	20.700		01/01/96-12/31/96	\$ 175,125	\$ 105,187	\$	\$ 105,187
Pipeline Safety - 1997 Grant	DOT-GB-70020	20.700		01/01/97-12/31/97	\$ 270,098	108,890		108,890
Total Pipeline Safety						\$ 214,077	\$ 0	\$ 214,077
<b>Total U.S. Department of Transportation</b>						<b>\$ 214,077</b>	<b>\$ 0</b>	<b>\$ 214,077</b>
<b>National Foundation on the Arts and the Humanities</b>								
Promotion of the Arts - Arts in Education	96-5154-0005	45.003		07/01/96-06/30/97	\$ 49,000	\$ 490	\$ 48,510	\$ 49,000
Promotion of the Arts - State and Regional Program	96-6141-0013	45.007		10/01/96-09/30/97	\$ 439,200	4,888	434,312	439,200
Promotion of the Arts - Folk and Traditional Arts	96-5533-0005	45.015		10/01/95-12/31/96	\$ 32,000	322	31,678	32,000
<b>Total National Foundation on the Arts and the Humanities</b>						<b>\$ 5,700</b>	<b>\$ 514,500</b>	<b>\$ 520,200</b>
<b>U.S. Department of Energy</b>								
Update of Building Energy Codes	DE-FG45-95R530306	81.000		07/20/95-12/31/96	\$ 79,901	\$	\$ 29,384	\$ 29,384
National Energy Information Center								
1991-1996 Energy Information Administration - State Heating Oil and Propane	DE-FC01-91E122720	81.039		08/28/91-08/07/96	\$ 33,587	\$	\$	\$ 0
1996-2001 Energy Information Administration - State Heating Oil and Propane	DE-FC01-96E129055	81.039		08/08/96-08/07/01	\$ 14,424			0
Total National Energy Information Center						\$ 0	\$ 0	\$ 0
State Energy Conservation	DE-FG45-76CS60204	81.041		06/06/76-09/30/96	\$ 14,860,483	\$	\$	\$ 0
State Energy Conservation	DE-FG45-96R530334	81.041		10/01/96-09/30/97	\$ 1,616,630	581,588	219,037	800,625
Total State Energy Conservation						\$ 581,588	\$ 219,037	\$ 800,625
Energy Conservation for Institutional Buildings	DE-FG45-89R510368	81.052		10/01/89-09/30/96	\$ 517,573	\$	\$	\$ 0
Energy Conservation for Institutional Buildings	DE-FG45-95R570501	81.052		10/01/95-08/30/97	\$ 1,433,266		596,886	596,886
Total Energy Conservation for Institutional Buildings						\$ 0	\$ 596,886	\$ 596,886

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1997

Continued

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA * Program Number	Award Period	Amount of Award	Amounts Expended		
					Directly Expended by Department	Distributed to Subrecipients	Total
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-93R530282	81.105	10/01/93-09/30/96	\$ 345,000	\$	\$ 34,500	\$ 34,500
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-95R530310	81.105	10/01/95-04/30/98	\$ 400,000	374,827		374,827
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-96R530339	81.105	10/01/96-09/30/97	\$ 218,560	218,560		218,560
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-96R530340	81.105	10/01/96-09/30/97	\$ 228,560			0
Total National Industrial Competitiveness Through Energy, Environment, and Economics					\$ 593,387	\$ 34,500	\$ 627,887
<b>Total U.S. Department of Energy</b>					<b>\$ 1,174,975</b>	<b>\$ 879,807</b>	<b>\$ 2,054,782</b>
<b><u>U.S. Department of Health and Human Services</u></b>							
Inspection of Mammography Facilities for Compliance with the Mammography Quality Standards Act 1992	223-96-4421	N/A	05/06/96-05/17/97	\$ 364,036	\$ 211,518	\$	\$ 211,518
Inspection of Mammography Facilities for Compliance with the Mammography Quality Standards Act 1992	223-97-4421	N/A	05/18/97-05/16/98	\$ 322,449	115,730		115,730
Emergency Medical Services for Children	5 MCH-264002-03	93.127	10/01/96-09/30/97	\$ 118,008	7,525	41,417	48,942
Childhood Lead Poisoning Prevention Projects - State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	U60/CCU512145-01	93.197	10/01/96-09/30/97	\$ 67,839			0
Occupational Safety and Health Research Grants	U60/CCU502998-10	93.262	09/30/96-09/29/97	\$ 155,229	154,987		154,987
Child Care and Development Block Grant	G96B1MICARE	93.575	10/01/96-09/30/97	\$ 831,462	831,462		831,462
Foster Care - Title IV-E	G9701MI1401	93.658	** 10/01/96-09/30/97	\$ 1,233,793	1,233,793		1,233,793
Social Services Block Grant - Title XX	19701MISOSR	93.667	** 10/01/96-09/30/97	\$ 10,784,100	10,781,386		10,781,386
Clinical Laboratory Improvement Act	05-9705-MI-5002	93.727	10/01/96-09/30/97	\$ 531,740	430,290		430,290
State Survey and Certification of Health Care Providers and Suppliers	05-9705-MI-5001	93.777	** 10/01/96-09/30/97	\$ 5,370,852	4,427,066		4,427,066
Medical Assistance Program	05-9705-MI-5048	93.778	** 10/01/96-09/30/97	\$ 4,607,470	4,607,470		4,607,470
Preventive Health and Health Services Block Grant	97-B1-MI-PRVS	93.991	10/01/96-09/30/98	\$ 705,200		689,274	689,274
<b>Total U.S. Department of Health and Human Services</b>					<b>\$ 22,801,227</b>	<b>\$ 730,691</b>	<b>\$ 23,531,918</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>							
National Manufactured Home Construction and Safety Standards Act 1974	DU100K900016694	N/A	05/06/96-05/05/01	\$ 930,000	\$ 187,369	\$	\$ 187,369
<b>Total U.S. Department of Housing Urban Development</b>					<b>\$ 187,369</b>	<b>\$ 0</b>	<b>\$ 187,369</b>
Total Federal Financial Assistance					\$ 33,922,697	\$ 2,124,998	\$ 36,047,695

The National Foundation on the Arts and the Humanities consolidated portions of the program elements of CFDA 45.007, into CFDA 45.025 (Promotion of the Arts - Partnership Agreements).

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

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

N/A = Not applicable.

**DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES**

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1996

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA * Program Number	Award Period	Amount of Award	Amounts Expended		
					Directly Expended by Department	Distributed to Subrecipients	Total
<b><u>U.S. Department of Labor</u></b>							
Compensation and Working Conditions Data	W9J6814261	17.005	10/01/95-09/30/96	\$ 170,000	\$ 169,002	\$	\$ 169,002
Occupational Safety and Health - State Assistance	50F5-0052	17.500 **	10/01/94-09/30/95	\$ 2,707	\$ 2,704	\$	\$ 2,704
Occupational Safety and Health - State Assistance - Safety	50F6-0052	17.500 **	10/01/95-12/31/96	\$ 5,253,494	4,964,248		4,964,248
Total Occupational Safety and Health					\$ 4,966,952	\$ 0	\$ 4,966,952
OSHA/Consultation Agreements - Safety	W9F6-0952	17.504	10/01/95-12/31/96	\$ 502,700	\$ 476,693	\$	\$ 476,693
OSHA/Consultation Agreements - Data Collection	W9F5-0752	17.504	10/01/95-09/30/96	\$ 86,611	86,611		86,611
Total Consultation Agreements					\$ 563,304	\$ 0	\$ 563,304
Mine Safety and Health Grants	96ERR00019	17.600	10/01/95-09/30/96	\$ 118,247	\$ 116,636	\$	\$ 116,636
<b>Total U.S. Department of Labor</b>					<b>\$ 5,815,894</b>	<b>\$ 0</b>	<b>\$ 5,815,894</b>
<b><u>U.S. Department of Transportation</u></b>							
Pipeline Safety - 1995 Grant	DOT-GB-50020	20.700	01/01/95-12/31/95	\$ 195,064	\$ 115,571	\$	\$ 115,571
Pipeline Safety - 1996 Grant	DOT-GB-60020	20.700	01/01/96-12/31/96	\$ 175,125	64,784		64,784
<b>Total U.S. Department of Transportation</b>					<b>\$ 180,355</b>	<b>\$ 0</b>	<b>\$ 180,355</b>
<b><u>National Foundation on the Arts and the Humanities</u></b>							
Promotion of the Arts - Arts in Education	94-5154-0006	45.003	07/01/94-08/31/96	\$ 197,000	\$ 1,070	\$ 97,430	\$ 98,500
Promotion of the Arts - State and Regional Program - Basic State	95-6141-0012	45.007 **	10/01/94-09/30/95	\$ 531,000	\$ 5,785	\$ 525,215	\$ 531,000
Promotion of the Arts - State and Regional Program - Underserved	94-6144-0085	45.007 **	10/01/94-09/30/96	\$ 135,400	737	66,963	67,700
Total Promotion of the Arts - State and Regional Program					\$ 6,522	\$ 592,178	\$ 598,700
<b>Total National Foundation on the Arts and the Humanities</b>					<b>\$ 7,592</b>	<b>\$ 689,608</b>	<b>\$ 697,200</b>
<b><u>U.S. Department of Energy</u></b>							
Update of Building Energy Codes	DE-FG45-95R530306	81.000	07/20/95-12/31/96	\$ 79,901	\$ 30,452	\$	\$ 30,452
National Energy Information Center	DE-FC01-91E122720	81.039	08/28/91-08/07/96	\$ 33,587	\$ 7,245	\$	\$ 7,245
State Energy Conservation	DE-FG45-76CS60204	81.041 **	06/06/76-09/30/96	\$ 14,860,483	\$ 573,995	\$	\$ 573,995
Total State Energy Conservation					\$ 573,995	\$ 0	\$ 573,995
Energy Conservation for Institutional Buildings	DE-FG45-89R510368	81.052	10/01/89-09/30/96	\$ 517,573	\$ 64,830	\$	\$ 64,830
Energy Conservation for Institutional Buildings	DE-FG45-95R570501	81.052	07/07/95-08/31/97	\$ 1,433,266		499,290	499,290
Total Energy Conservation for Institutional Buildings					\$ 64,830	\$ 499,290	\$ 564,120
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-93R530282	81.105	10/01/93-09/30/95	\$ 345,000	\$ 119,459	\$	\$ 119,459
National Industrial Competitiveness Through Energy, Environment, and Economics	DE-FG45-95R530310	81.105	10/01/95-11/30/96	\$ 400,000			0
Total National Industrial Competitiveness Through Energy, Environment, and Economics					\$ 119,459	\$ 0	\$ 119,459

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1996

Continued

Grantor Agency/ Federal Assistance Program Title	Grant/Contract Number	CFDA Program Number	*	Award Period	Amount of Award	Amounts Expended		
						Directly Expended by Department	Distributed to Subrecipients	Total
Public Housing Authority Performance Contracting Demonstration Project	DE-FG45-92R530273	81.502		10/01/92-04/30/96	\$ 40,000	\$	\$	\$ 0
<b>Total U.S. Department of Energy</b>						<b>\$ 795,981</b>	<b>\$ 499,290</b>	<b>\$ 1,295,271</b>
<b>U.S. Department of Education</b>								
Rehabilitation Services - Vocational Rehabilitation Grants to States	H126A50031	84.126	**	10/01/94-09/30/96	\$ 188,512	\$ 188,512	\$	\$ 188,512
Rehabilitation Services - Vocational Rehabilitation Grants to States	H126A60031	84.126	**	10/01/95-09/30/97	\$ 8,974,627	8,974,627		8,974,627
Rehabilitation Services - Vocational Rehabilitation Grants to States	H126A60030-96J	84.126	**	10/01/95-09/30/97	\$ 270,000	270,000		270,000
Total Rehabilitation Services - Vocational Rehabilitation Grants to States						<b>\$ 9,433,139</b>	<b>\$ 0</b>	<b>\$ 9,433,139</b>
Rehabilitation Services - Client Assistance Program	H161A60023-96	84.161		10/01/95-09/30/96	\$ 53,213	\$ 53,213	\$	\$ 53,213
Independent Living - State Grants	H169A60032	84.169		10/01/95-09/30/97	\$ 206,375	206,375		206,375
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	H177A40032	84.177		10/01/95-09/30/96	\$ 186,500	186,500		186,500
Supported Employment Services for Individuals with Severe Disabilities	H187A60032	84.187		10/01/95-09/30/97	\$ 99,745	72,014		72,014
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	H265A40011	84.265		10/01/95-09/30/96	\$ 39,590	19,795		19,795
<b>Total U.S. Department of Education</b>						<b>\$ 9,971,036</b>	<b>\$ 0</b>	<b>\$ 9,971,036</b>
<b>U.S. Department of Health and Human Services</b>								
Supplemental Security Income	Reimbursement Agreement	96.006	**	10/01/95-09/30/97	\$ 793,674	\$ 730,674	\$ 63,000	\$ 793,674
Supplemental Security Income	Reimbursement Agreement	96.006	**	N/A	\$ 204,475	204,475		204,475
Total Supplemental Security Income						<b>\$ 935,149</b>	<b>\$ 63,000</b>	<b>\$ 998,149</b>
<b>Total U.S. Department of Health and Human Services</b>						<b>\$ 935,149</b>	<b>\$ 63,000</b>	<b>\$ 998,149</b>
<b>U.S. Department of Housing and Urban Development</b>								
National Manufactured Home Construction and Safety Standards Act 1974	DU100K900016694	N/A		05/06/96-05/05/01	\$ 930,000	\$ 216,002	\$	\$ 216,002
<b>Total U.S. Department of Housing and Urban Development</b>						<b>\$ 216,002</b>	<b>\$ 0</b>	<b>\$ 216,002</b>
Total Federal Financial Assistance						<b>\$ 17,922,010</b>	<b>\$ 1,251,898</b>	<b>\$ 19,173,907</b>

The Department of Consumer and Industry Services provided accounting and administrative support services for the U.S. Department of Education's Rehabilitation Services - Vocational Rehabilitation Grants to States, CFDA 84.126, which was transferred to the Family Independence Agency by Executive Order 1996-2. The program was a major federal financial assistance program in fiscal year 1995-96 for the Department of Consumer and Industry Services. A portion (\$8,974,627) of this program was audited and reported on in the Single Audit of the Family Independence Agency for the period October 1, 1994 through September 30, 1996 and was not reported on in this schedule.

The National Foundation on the Arts and the Humanities consolidated portions of the program elements of CFDA 45.007, into CFDA 45.025 (Promotion of the Arts - Partnership Agreements).

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

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

N/A = Not applicable.

# SUPPLEMENTAL INFORMATION

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Questioned Costs  
Fiscal Years Ended September 30, 1997 and 1996

Program and Grant/Contract Number	Finding	Questioned Costs	
		Fiscal Year 1996-97	Fiscal Year 1995-96
<u>U.S. Department of Labor</u>			
1. Occupational Safety and Health - State Assistance - Safety CFDA #17.500 Grant #50F6-0052	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.b.(1) and 2.b.(2))	\$	\$ 67,402
2. Occupational Safety and Health - State Assistance CFDA #17.500 Grant #50F7-0052	Purchased items were not included in State plan.	3,219	
3. Occupational Safety and Health - State Assistance CFDA #17.500 Grant #50F7-0052	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.b.(1))	144,606	
4. OSHA/Consultation Agreements - Safety CFDA #17.504 Grant #W9F6-0952	Personnel-payroll cost allocation documentation was not adequate, and purchased items were not included in State plan. (Finding 2.b.(1))		1,410
5. OSHA/Consultation Agreements - Safety CFDA #17.504 Grant #W9F7-0952	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.b.(1))	1,253	
6. OSHA/Consultation Agreements -Health CFDA #17.504 Grant #W9F7-1952	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.b.(1))	12,873	
7. OSHA/Consultation Agreements - Data Collection CFDA #17.504 Grant #W9F6-3752	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.b.(3))	73,639	
8. OSHA/Consultation Agreements - Safety CFDA #17.504 Grant #W9F7-0952	CIS charged a federal program for rent of a State car parked at an employee's house while on medical leave.	184	
<u>National Foundation on the Arts and the Humanities</u>			
9. Promotion of the Arts - Arts in Education CFDA #45.003 Grant #94-5154-0006	CIS used an incorrect rate and incorrect salary estimate in calculation of indirect costs.		346
10. Promotion of the Arts - State and Regional Program - Basic State CFDA #45.007 Grant #95-6141-0012	CIS used an incorrect rate and incorrect salary estimate in calculation of indirect costs.		1,869

*This schedule continued on next page.*

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
 Schedule of Questioned Costs  
 Fiscal Years Ended September 30, 1997 and 1996  
 Continued

Program and Grant/Contract Number	Finding	Questioned Costs	
		Fiscal Year 1996-97	Fiscal Year 1995-96
11. Promotion of the Arts - State and Regional Program - Underserved CFDA #45.007 Grant #94-6144-0085	CIS used an incorrect rate and incorrect salary estimate in calculation of indirect costs.	\$	\$ 238
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<u>U.S. Department of Energy</u>			
12. State Energy Conservation CFDA #81.041 Grant #DE-FG45-76CS60204	Personnel-payroll cost allocation documentation was not adequate. (Finding 2.a)		212,119
<hr/>			
Total Questioned Costs		<u>\$ 235,773</u>	<u>\$ 283,384</u>

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

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Immaterial Noncompliance  
Fiscal Years Ended September 30, 1997 and 1996

<u>Program and Grant/Contract Number</u>	<u>Finding/Noncompliance</u>
<u>U.S. Department of Labor</u>	
Occupational Safety and Health CFDA #17.500 Grant #50F6-0052	CIS filed its third quarter financial status report 40 days after its due date of September 30, 1996.
Grant #50F7-0052	CIS filed its third quarter financial status report 1 day after its due date of September 30, 1997.
Grant #50F7-0052	CIS had not filed its final financial status report that was due May 31, 1998.
OSHA/Consultation Agreements CFDA #17.504 Grant #W9F7-1952	CIS filed its third quarter financial status report 1 day after its due date of September 30, 1997.
Grant #W9F7-0952	CIS filed its third quarter financial status report 1 day after its due date of September 30, 1997.
Grant #W9F7-1952	CIS had not filed its final financial status report that was due May 31, 1998.
Grant #W9F7-0952	CIS had not filed its final financial status report that was due May 31, 1998.
<u>National Foundation on the Arts and the Humanities</u>	
Promotion of the Arts - State and Regional Program CFDA #45.007 Grant #95-6141-0012	CIS filed its final report package 27 days after its due date of April 30, 1997.
Grant #94-6144-0085	CIS filed its final report package 23 days after its due date of March 14, 1998.
<u>U.S. Department of Energy</u>	
State Energy Conservation CFDA #81.041 Grant #DE-FG45-76CS60204	CIS filed its first quarter financial status report 29 days after its due date of March 31, 1996.  CIS did not notify employees engaged in the performance of grants of the State of Michigan Drug-Free Workplace Policy.
Energy Conservation for Institutional Buildings CFDA #81.052 Grant #DE-FG45-89R510368	CIS filed its first quarter financial status report 29 days after its due date of March 31, 1996.

*This schedule continued on next page.*

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
 Schedule of Immaterial Noncompliance  
 Fiscal Years Ended September 30, 1997 and 1996  
 Continued

Program and Grant/Contract Number	Finding/Noncompliance
<u>U.S. Department of Health and Human Services</u>	
Foster Care - Title IV-E CFDA #93.658 Grant #G9701MI1401	CIS did not notify employees engaged in the performance of grants of the State of Michigan Drug-Free Workplace Policy.
Social Services Block Grant - Title XX CFDA #93.667 Grant #19701MISOSR	CIS did not notify employees engaged in the performance of grants of the State of Michigan Drug-Free Workplace Policy.
State Survey and Certification of Health Care Providers and Suppliers CFDA #93.777 Grant #05-9705-MI-5001	CIS filed its fourth quarter financial status report 24 days after its due date of October 31, 1997.
Supplemental Security Income CFDA #96.006	CIS did not notify employees engaged in the performance of grants of the State of Michigan Drug-Free Workplace Policy.

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

Note: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report. All instances of noncompliance that have an associated questioned cost are presented on the schedule of questioned costs.

## Glossary of Acronyms and Terms

<b>CFDA</b>	<i>Catalog of Federal Domestic Assistance.</i>
<b>FIA</b>	Family Independence Agency.
<b>financial audit</b>	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
<b>internal control structure</b>	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.
<b>material misstatement</b>	A misstatement in the financial schedules that causes the schedules to not present fairly the financial position or the results of operations or cash flows in conformity with generally accepted accounting principles.
<b>material noncompliance</b>	Violations of laws and regulations that could have a direct and material effect on major federal financial assistance programs or on financial schedule amounts.
<b>material weaknesses</b>	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.
MSHDA	Michigan State Housing Development Authority.
OHR	Office of Human Resources.
OMB	federal Office of Management and Budget.
OSHA	Occupational Safety and Health Administration.
PPRISM	Personnel-Payroll Information System for Michigan.
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.
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	<i>State of Michigan Comprehensive Annual Financial Report.</i>

**subrecipient**

A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.

**TAR**

time and attendance reports.