

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, 1997 through September 30, 1999.

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 Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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 Management, within Administration and Programs Administration, and the units administering the federal grants. The Bureau of Fiscal Management administers DOC's budget and financial transactions.

DOC's annual expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, totaled approximately \$1.4 billion for fiscal year 1998-99. As of September 30, 1999, DOC had 17,002 employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit DOC's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on DOC's financial schedules. In addition, we expressed an unqualified opinion on DOC's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on DOC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could

have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*. However, we noted reportable conditions* related to encumbrances and expenditure classification (Findings 1 and 2).

In addition, 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.

Audit Objective: To assess and report on DOC's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These related to expenditure classification, the Adult Education - State Grant Program budget and federal awards, federal payroll costs, the Child Nutrition Cluster, federal reporting, meal counts, and subrecipient* monitoring (Findings 3 through 9). **Also, our assessment of internal control over**

compliance applicable to each major federal program identified four material weaknesses:

- DOC did not properly classify all federal program expenditures as required by the Common Rule* when administering the Adult Education - State Grant Program and the Title I Program for Neglected and Delinquent Children (Finding 3).

DOC informed us that it agrees and has taken steps to comply with the related recommendation.

- DOC did not expend Adult Education - State Grant Program federal awards in accordance with the categorical budgets approved by the Michigan Department of Education (Finding 4).

DOC informed us that it agrees and has complied with the related recommendation.

- DOC did not properly document payroll costs charged to four of its federal programs (Finding 5).

DOC informed us that it agrees and has complied with the related recommendation.

- DOC did not record federal awards expended for the School Breakfast Program or the National School Lunch Program separately in the Michigan Administrative Information Network. DOC recorded all federal awards expended for the Child Nutrition Cluster as purchases and services only from NSLP federal awards. As a result, DOC could not reconcile

its financial schedules to the schedule of expenditures of federal awards. (Finding 6)

DOC informed us that it agrees and has complied with the related recommendation.

We also identified other reportable conditions related to federal reporting, meal counts, and subrecipient monitoring (Findings 7 through 9).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 or DOC's Miscellaneous Trust Accounts Fund, which we audit separately.

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

Our audit report contains 8 findings and 9 corresponding recommendations. DOC's corrective action plan indicates that it agrees with 7 of the findings, partially agrees with 1 of the findings, and has complied with or plans to implement all of the recommendations.

As disclosed in DOC's summary schedule of prior audit findings, DOC fully corrected 2 of the 5 prior Single Audit* findings. The remaining 3 findings are addressed in this report (Findings 2, 3, and 7).