

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, 1993 through September 30, 1995.

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 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 Program Administration, Field Operations Administration, and Correctional Facilities Administration. Responsibilities related to federal grant management are shared by the Office of Fiscal Management, within Administration and Program Administration, and the units administering the federal grants.

DOC's expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund, totaled approximately \$1.2 billion and \$1.1 billion for fiscal years 1994-95 and 1993-94, respectively. As of September 30, 1995, DOC had 16,141 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 did not disclose any material weaknesses*. However, our assessment disclosed reportable conditions* related to DOC's classification of costs, accounts payable, and encumbrances (Findings 1 through 3).

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. However, we noted one reportable condition related to DOC's evaluation of internal controls (Finding 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 financial federal 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 laws and regulations affecting federal program revenue:

- DOC improperly requested and received federal revenue for fiscal years 1993-94 and 1994-95. As a result, DOC received \$178,952 of unearned federal revenue causing material misstatements of federal revenue within three federal programs. Also, DOC's violation of generally accepted accounting principles related to revenue recognition caused DOC to use General Fund/general purpose appropriations to fund federal programs. (Finding 5)

DOC agreed with the corresponding recommendation and will comply by seeking guidance from the Department of Management and Budget for the proper recording of restricted revenue carry-forwards.

Audit Objective: To audit DOC's financial schedules for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed an unqualified opinion on DOC's financial schedules for the fiscal years ended September 30, 1995 and September 30, 1994.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1993 through September 30, 1995. 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 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 agreed with our recommendations and has taken or will take steps to implement the recommendations.

DOC complied with the prior audit recommendation.