

EXECUTIVE DIGEST

DEPARTMENT OF CORRECTIONS

INTRODUCTION

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

AUDIT PURPOSE

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

BACKGROUND

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

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

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

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

**AUDIT OBJECTIVES
AND CONCLUSIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDIT SCOPE

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

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

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

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

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

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

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