



2008

2008 ANNUAL REPORT

MICHIGAN OFFICE OF THE  
AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall  
conduct post audits of  
financial transactions and  
accounts of the state and of  
all branches, departments,  
offices, boards, commissions,  
agencies, authorities  
and institutions of the  
state established by this  
constitution or by law, and  
performance post audits  
thereof.

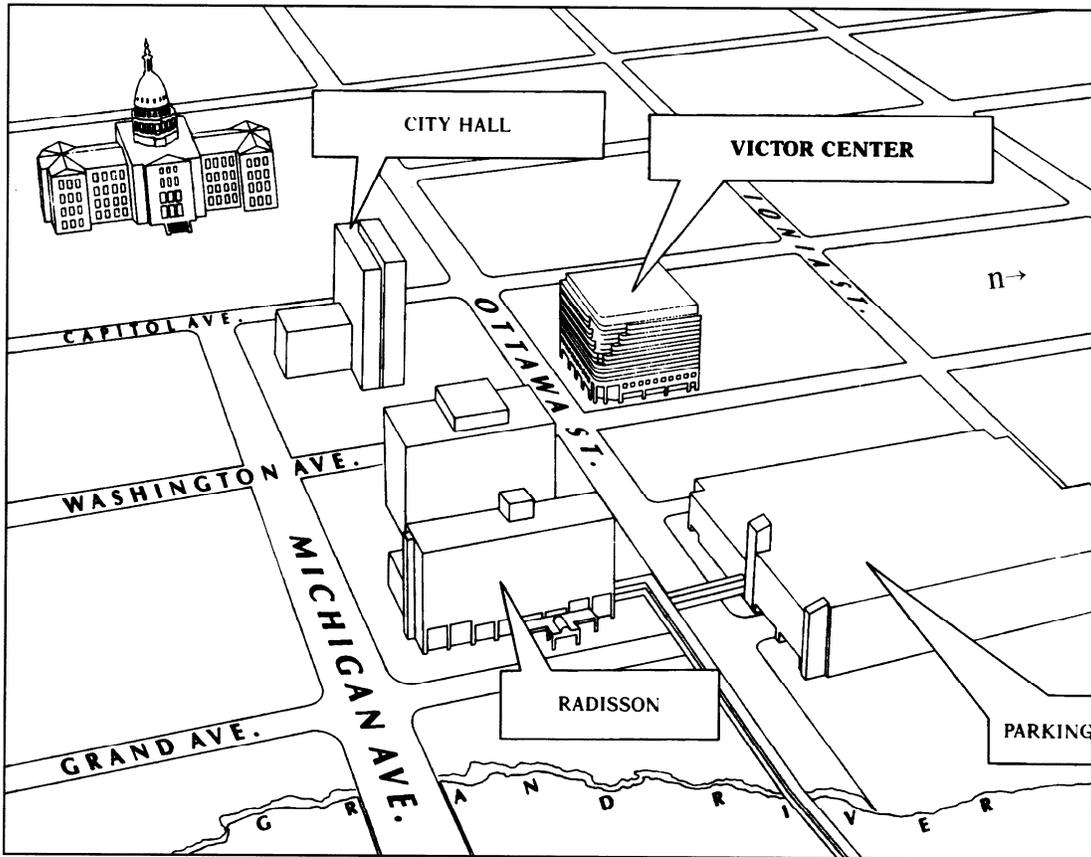
*- Article IV, Section 53 of the  
Michigan Constitution*

Directory

Thomas H. McTavish, C.P.A. .... Auditor General  
Scott M. Strong, C.P.A., C.I.A. .... Deputy Auditor General  
Craig M. Murray, C.P.A., C.I.A. .... Director of Professional Practice  
Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E. .... Chief Information Officer  
Paul J. Green, C.P.A., C.I.A., C.I.S.A. .... Director of Administration  
Robert T. Ortwein, L.M.S.W., L.P.C. .... State Relations Officer

Telephone Number: (517) 334-8050  
FAX Number: (517) 334-8079  
<http://audgen.michigan.gov>  
Office of the Auditor General  
Victor Center, Sixth Floor  
201 N. Washington Square  
Lansing, Michigan 48913

**Where We Are Located**





STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

September 30, 2008

The Honorable Jennifer M. Granholm, Governor of Michigan  
The Honorable Mike Bishop, Senate Majority Leader  
The Honorable Andy Dillon, Speaker of the House  
The Honorable Michael Prusi, Senate Minority Leader  
The Honorable Kevin A. Elsenheimer, House Minority Leader  
and  
Members of the 95th Legislature

Ladies and Gentlemen:

This annual report on the operations of the Michigan Office of the Auditor General covers the fiscal years ended September 30, 2007 and September 30, 2008 and is submitted in accordance with Article IV, Section 53 of the Michigan Constitution.

The Office of the Auditor General has the responsibility, as stated in Article IV, Section 53 of the Michigan Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate. To fulfill our requirements and to continually meet our customer needs, we are committed to improving the quality of our audit services and reports and communicating our results to all of the branches of State government, as well as to the citizens of Michigan.

In conformance with the Michigan Constitution and the *Michigan Compiled Laws*, we have established our mission to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. We serve the public interest by providing members of the Legislature and other policymakers with accurate information, unbiased analyses, and objective recommendations on how to best use scarce public resources. We fulfill our mission by adhering to the professional standards and the principles of integrity, objectivity, independence, and due care and by conscientiously carrying out our audit responsibilities. *Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review of the Office of the Auditor General's operations noted no impairments affecting our independence in providing auditing and other attestation services.

To help in fulfilling our audit mission and responsibilities, we have focused our efforts on maximizing the quality of our services and improving communication and strengthening our professional relationship with the Legislature, the agencies that we audit, and the citizens of the State of Michigan. This focus has resulted in a continuous quality improvement process within our office consisting of a commitment to enhance the quality of our services, the use of valid measurements to track our programs, and the use of appropriate teams to facilitate improvements and form ongoing partnerships to promote quality in service delivery.

As the State continues to increase its use of information technology to manage and control its programs and resources, the Office of the Auditor General continues to maintain its leading edge in the use of information technology. We provide our staff with the appropriate technology and resources to enable them to fulfill their assignments and to ensure the successful achievement of our mission.

We also continue to use the State's high-speed network to communicate to our audit staff on assignment at the various State agencies. This communication link permits our staff to store automated information on our servers, to send and receive e-mail, and to access the Internet for research purposes. It also permits us to quickly update computer virus software and computer operating system software to secure our automated information.

In addition, our Web site continues to be an effective means to make our audit reports available to the Legislature and the general public. Visitors to our Web site can easily search for and retrieve audit reports that contain specific points of interest. Also, visitors can sign up to receive an electronic copy of our audit report summaries as we add them to our Web site.

The core strength of our office continues to be the quality of our staff. There is strong competition from the private sector for new auditors, as well as a strong demand for trained professionals throughout State government. We continue to use innovative strategies to employ and retain highly motivated, skilled, and dedicated staff. The Office of the Auditor General is committed to providing the Legislature and other interested parties with accurate and reliable information, and the key factors in achieving this commitment are the competency and professionalism of our staff.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is written in a cursive style with a horizontal line extending to the left.

Thomas H. McTavish, C.P.A.  
Auditor General





# National State Auditors Association

September 30, 2006

Mr. Thomas H. McTavish, CPA  
Office of the Auditor General  
204 N. Washington Square  
Lansing, Michigan 48913

Dear Mr. McTavish:

We have reviewed the system of quality control of the State of Michigan, Office of the Auditor General (the office) in effect for the period October 1, 2005 through September 30, 2006. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Michigan, Office of the Auditor General in effect for the period October 1, 2005 through September 30, 2006 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

---

Pamela J. Robinson, Team Leader  
National State Auditors Association  
External Peer Review Team

---

Richard H. Foote, Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

The Office of the Auditor General, established by the Michigan Constitution within the legislative branch of State government, is responsible for conducting independent financial and performance audits of State government operations. The resulting audit reports provide a continuing flow of information to assist the Legislature in its oversight of State government; to provide citizens with a measure of accountability; and to assist State departments and agencies in improving the financial management and the effectiveness and efficiency of the activities and programs approved by the Legislature.

### **Organization**

The Office of the Auditor General is organizationally divided into four areas of responsibility. The largest area, the Bureau of Audit Operations, is responsible for planning and conducting audits and reporting audit results. The three other areas, the Office of Professional Practice, the Office of Information Technology, and the Office of Administration, provide essential support services.

### **Audit Activities**

The Office of the Auditor General completed 105 audits during fiscal years 2006-07 and 2007-08, and contracted for 22 additional audits during each fiscal year. Our audit reports contained 509 recommendations to improve State government financial management and operations. In addition, in accordance with professional standards, we orally communicated many other recommendations of a lesser nature to State managers and administrators during our audits. In fiscal years 2006-07 and 2007-08, our audits identified potential savings to the State of \$361.9 million.

### **Significant Findings**

Although the number and magnitude of the findings varied considerably from audit to audit, several audit reports contained findings with significant impact on government operations.

#### Performance Audits

Performance audits are conducted on a priority basis related to the potential for improving State government operations. Approximately 49% of the Bureau's direct audit hours were used for performance audits during fiscal years 2006-07 and 2007-08. Our performance audits resulted in numerous recommendations for further improving the programs audited. Following are highlights from some of our performance audit reports:

- In our audit of the Court Originated Liability Section, Medical Services Administration, Department of Community Health (DCH), we identified 11 audit findings, including 7 that were classified as material conditions. The audit report disclosed that DCH either missed or may miss the opportunity for potential Medicaid cost recoveries totaling up to an estimated \$208.1 million (\$90.1 million State General Fund/general purpose funding).

- In our audit of the Suitability of Child Development and Care (CDC) Program Providers, Department of Human Services (DHS), we identified through various criminal history and background information checks approximately 1,900 unsuitable child day-care providers that DHS had authorized to provide child care services. As a result, DHS potentially placed approximately 4,600 CDC Program children at risk. The audit report contains 10 findings, 9 of which were classified as material conditions.
- In our audit of Child Development and Care (CDC) Program Payments, Department of Human Services (DHS), we identified 12 findings, 7 of which were classified as material conditions. We estimated that DHS made potential improper and, in some cases, potentially fraudulent CDC Program payments of \$231 million.
- In our audit of Prisoner Food Services, Department of Corrections (DOC), we determined that DOC needs to consider additional ways to reduce the costs of providing prisoner meals. DOC lacks assurance that its food service operations budget (\$92.9 million for fiscal year 2006-07) is utilized efficiently. If DOC had a contracting arrangement similar to other states' contracting arrangements, we estimate that it could potentially realize significant annual savings in its food services program. Also, DOC did not effectively monitor food production. Failure to effectively monitor food production may impair DOC's ability to control food services costs. We estimate that the exceptions identified equated to \$1.2 million. In addition, DOC's correctional facilities did not consistently ensure that they obtained food commodities at the best price. As a result, facilities may have missed opportunities to realize cost savings related to food purchases. DOC expended a total of \$46.2 million for food commodities in fiscal year 2006-07.
- In our audit of the Special Alternative Incarceration Program (SAI), Department of Corrections (DOC), we determined that DOC had not developed a comprehensive process to assist in evaluating the success of SAI. Consequently, DOC was unable to evaluate the overall effectiveness of SAI and support its efforts to expand the program. We determined that the State could save approximately \$2.5 million annually if SAI operated at full capacity.

#### SOMCAFR Audit

Approximately 14% of our direct audit hours were used for our audit of the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for the fiscal years ended September 30, 2006 and September 30, 2007. These audits, which were conducted simultaneously with the Statewide year-end closing process, resulted in

45 recommended audit adjustments of \$1.4 billion during fiscal years 2005-06 and 2006-07. Internal control weaknesses reported included:

- The Department of Treasury did not ensure that the third party service organization's controls over the collection and processing of State revenue deposits were in place and operating as intended.
- The Department of Community Health (DCH) did not comply with State statute related to contract payments to Community Mental Health Services Programs.
- DCH did not have sufficient internal control over the Medicaid Adult Home Help Program to ensure that services provided to Medicaid beneficiaries were properly authorized.

### Single Audits

The Single Audit Act requires state and local governments receiving \$300,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit, including an assessment of the entity's compliance with federal program requirements. In accordance with Michigan statute (Act 251, P.A. 1985), the Office of the Auditor General audits approximately one-half of the applicable departments and agencies each year on a biennial audit cycle. Approximately 33% of our direct audit hours were used for Single Audits in fiscal years 2006-07 and 2007-08.

In fiscal years 2006-07 and 2007-08, we conducted 19 Single Audits and reported total net questioned costs of \$164.5 million. Significant findings are summarized by department starting on page 26 of this report.

### **Human Resources**

During fiscal year 2007-08, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 122-member professional audit staff included 69 certified public accountants, 4 certified internal auditors, and 11 certified information systems auditors. Staff members actively participated as officers, board members, and committee members of national, State, and local accounting and auditing organizations.

### **Conclusion**

The Office of the Auditor General continually strives to perform its oversight function and to improve the financial management and operations of State departments and agencies.

---

*Table of Contents*

---

	<u>Page</u>
Directory .....	i
Letter of Transmittal .....	ii
National State Auditors Association Quality Control Review Letter .....	v
Report Summary .....	vi
Auditors General of Michigan - Historical Listing .....	2
Mission and Overview .....	3
Mission .....	3
Responsibility .....	3
Organization and Operation of the OAG .....	4
Communication and State Relationships .....	5
Continuous Quality Improvement Efforts .....	5
Organizational Structure .....	6
Office of the Auditor General Employees .....	7
Office of the Auditor General Reports .....	10
Audit Operations .....	16
Performance Audits .....	17
Financial Audits .....	23
<i>SOMCAFR</i> Audit .....	24
Single Audits .....	25
Other Financial Audits .....	28
Legislative Requests .....	30
National Awards .....	31
Audit Operations Project Team Award .....	34
Support Services .....	38
Office of Professional Practice .....	38
Office of Information Technology .....	40
Office of Administration .....	42
Audit and Letter Reports Completed During Fiscal Year 2006-07 .....	47
Audit and Letter Reports Completed During Fiscal Year 2007-08 .....	61

HISTORICAL LISTING

Thomas H. McTavish, C.P.A. ....	1989 -
Charles S. Jones, C.P.A. (acting) .....	1989-1989
Franklin C. Pinkelman, C.P.A. ....	1982-1989
Albert Lee, C.P.A. ....	1965-1982
Allison Green (acting) .....	1965-1965
Billie S. Farnum .....	1961-1964
Otis M. Smith .....	1959-1961
Frank S. Szymanski .....	1956-1959
Victor Targonski .....	1955-1956
John B. Martin, Jr. ....	1951-1954
Murl K. Aten .....	1947-1950
John D. Morrison, C.P.A. ....	1945-1946
Vernon J. Brown .....	1939-1944
George T. Gundry .....	1937-1938
John J. O'Hara .....	1935-1936
John K. Stack, Jr. ....	1933-1935
Oramel B. Fuller .....	1909-1932
James B. Bradley .....	1905-1908
Perry F. Powers .....	1901-1904
Roscoe D. Dix .....	1897-1900
Stanley W. Turner .....	1893-1896
George W. Stone .....	1891-1892
Henry H. Applin .....	1887-1890
William C. Stevens .....	1883-1886
W. Irving Latimer .....	1879-1882
Ralph Ely .....	1875-1878
William Humphrey .....	1867-1874
Emil Anneke .....	1863-1866
Langford G. Berry .....	1861-1862
Daniel L. Case .....	1859-1860
Whitney Jones .....	1855-1858
John Zwegles, Jr. ....	1851-1854
John J. Adams .....	1848-1850
Digby V. Bell .....	1846-1848
John J. Adams .....	1845-1846
Charles G. Hammond .....	1842-1845
Henry L. Whipple .....	1842-1842
Alpheus Felch .....	1842-1842
Erotus P. Hastings .....	1840-1842
Henry Howard .....	1839-1840
Robert Abbott .....	1836-1839

## **Mission**

The mission of the Office of the Auditor General (OAG) is to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. The OAG best accomplishes its mission by committing to total quality; by adhering to the professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people they serve.

---

---

***... to improve the accountability for public funds and to improve the operations of State government***

---

---

## **Responsibility**

The Michigan Constitution established the OAG within the legislative branch of State government. The OAG has the responsibility, as stated in Article IV, Section 53 of the Michigan Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate.

Government officials and employees are accountable to the citizens of the State of Michigan for the proper handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide a continuing flow of information to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately \$43 billion. OAG audit reports also provide citizens with a measure of accountability and assist department administrators by providing an independent and objective evaluation of their operations. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness and efficiency in State government.

---

---

***... to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately \$43 billion.***

---

---

Audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Organization and Operation of the OAG**

The OAG is under the direction and control of the Auditor General, Thomas H. McTavish. Mr. McTavish is the principal executive and has ultimate responsibility for OAG policies and practices.

The Auditor General has appointed Scott M. Strong as Deputy Auditor General. Mr. Strong also serves as the Director of Audit Operations and acts as the Auditor General's principal aide in carrying out the management responsibilities and audit activities of the OAG.

The OAG is organizationally divided into four areas of responsibility:

- The Bureau of Audit Operations is responsible for conducting independent post financial and performance audits of the State of Michigan's executive, legislative, and judicial branches of government, including its universities and community colleges. The Bureau also performs specific reviews in response to legislative requests. In addition, the Bureau participates in joint National State Auditors Association audits with other states' audit agencies.
- The Office of Professional Practice is responsible for performing quality assurance reviews of audit reports and working papers, editing the audit reports, and conducting accounting and auditing research.
- The Office of Information Technology is responsible for managing the OAG local area network, maintaining the management information system, and providing computer support and software assistance to all OAG staff.
- The Office of Administration is responsible for human resource management; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

A chart depicting this organizational structure is presented on page 6.

---

---

***The OAG is organizationally divided into one bureau and three offices.***

---

---

### **Communication and State Relationships**

The OAG is committed to establishing and maintaining communication with all three branches of State government, as well as other entities subject to oversight by the OAG, which includes universities and community colleges.

OAG audit reports are the formal, written, and primary means of communicating the results of audit efforts. In addition to the reports, the OAG also focuses on communication and maintaining good working relationships before and after the issuance of audit reports. The OAG has established processes to communicate its audit plans to auditees and the Legislature, to issue periodic status reports to the House and Senate leadership, to issue quarterly summaries of audit reports, and to provide briefings and testimony before legislative committees. In accordance with the Michigan Constitution, the OAG also issues an annual report on the operations of the OAG to the Governor, the legislative leaders, and each member of the Legislature.

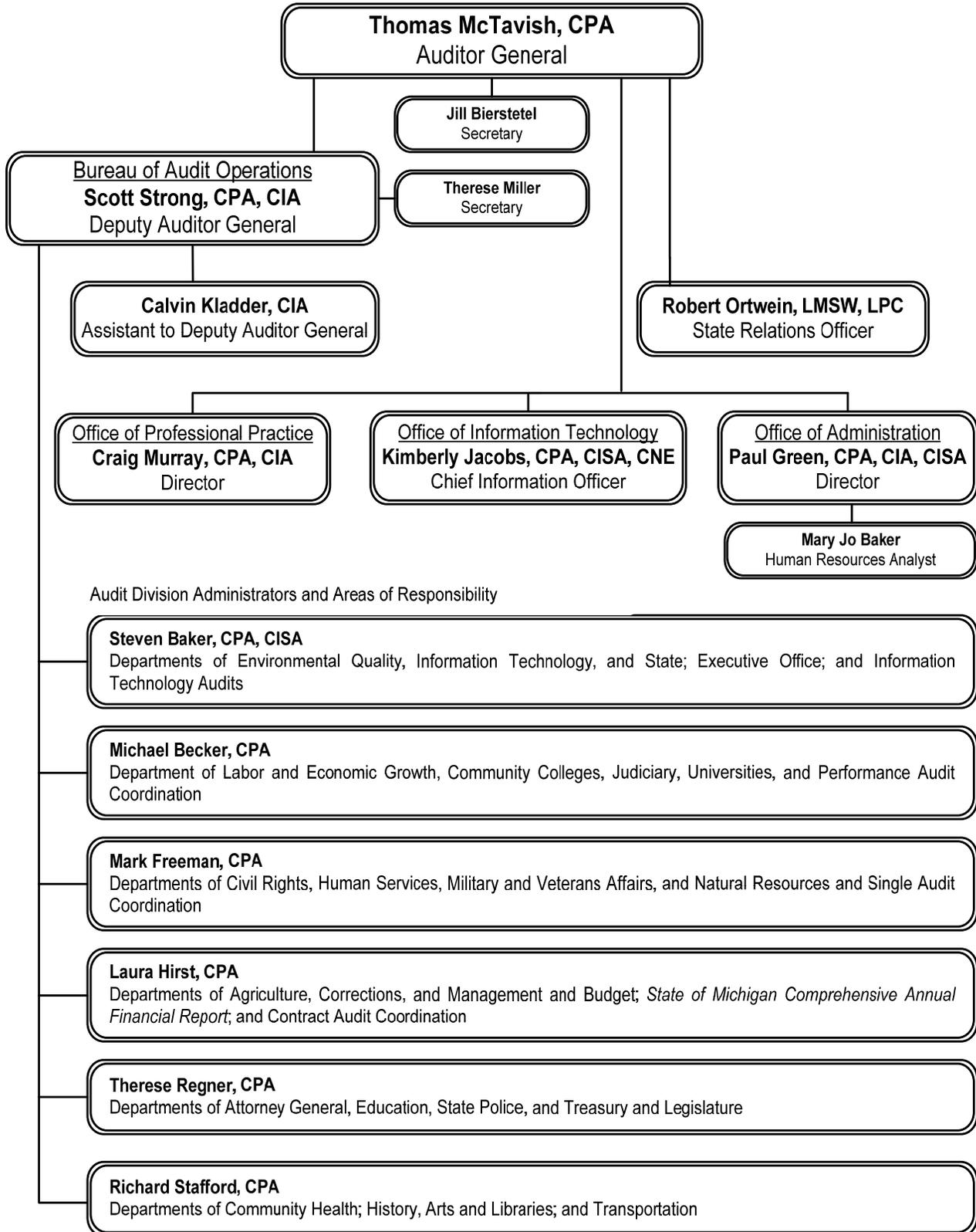
To achieve the widest distribution of its audit efforts, the OAG posts copies of its audit reports, and a copy of the annual report, to its Web site at <http://audgen.michigan.gov>.

Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal agencies, the judicial branch, State departments, and universities and community colleges.

### **Continuous Quality Improvement Efforts**

The OAG's continuous quality improvement initiatives assist in developing quality improvement goals to focus efforts on providing timely and relevant audit services and reports. Measures to monitor progress in meeting these goals are also developed. Each of the organizational areas within the OAG has developed improvement goals and objectives and performance measurement indicators. The OAG is committed to its continuous quality initiatives as it strives for further improvements in the future.

Organizational Structure



**Office of the Auditor General Employees**

201 N. Washington Square  
Lansing, MI 48913

(517) 334-8050  
Fax (517) 334-8079

THOMAS H. MCTAVISH, C.P.A., AUDITOR GENERAL  
Jill A. Bierstetel, Secretary

Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General  
Therese M. Miller, Secretary

Robert T. Ortwein, L.M.S.W., L.P.C., State Relations Officer

**AUDIT OPERATIONS**

Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General and Director of Audit Operations

Assistant to Deputy Auditor General

Calvin L. Kladder, C.I.A.

Audit Division Administrators

Steven J. Baker, C.P.A., C.I.S.A.  
Michael R. Becker, C.P.A.  
Mark A. Freeman, C.P.A.

Laura J. Hirst, C.P.A.  
Therese A. Regner, C.P.A.  
Richard A. Stafford, C.P.A.

Audit Managers

Thomas J. Beuerle, C.P.A.  
Melinda S. Hamilton  
Mary Jo Koschay, C.P.A.  
Elden N. Lamb  
Melissa A. Schuiling, C.P.A., C.I.S.A.  
Gerald A. Schwandt

Assists Mr. Stafford  
Assists Mr. Freeman  
Assists Ms. Hirst  
Assists Mr. Becker  
Assists Mr. Baker  
Assists Ms. Regner

Principal Audit Supervisors

Donna L. Ackley, C.P.A.  
John T. Cotter Jr., C.P.A.  
Shelly M. Fanson, C.P.A., C.I.S.A.  
Lynn R. Green, C.P.A.  
Scot E. Hazel  
Elmer R. Hess Jr.

Beau A. Hill, C.P.A.  
Steven R. Koschay, C.P.A.  
Lisa L. Pratt, C.P.A.  
Kathy J. Schroeder, C.P.A., C.I.S.A.  
Kevin L. Warner, C.P.A., C.I.S.A.  
Amy J. Zimmerman, C.P.A.

Senior Audit Supervisors

Anthony A. Alvord, C.P.A.  
Cheryl A. Baker, C.P.A.  
Yvonne L. Benn, C.P.A.  
Heather A. Boyd, C.P.A.  
Daphne Y. Hobson, C.P.A.  
Brian C. Hovey, C.P.A.  
Tracy L. Jelneck, C.P.A.

Mary L. Lowe, C.P.A.  
Lora J. Mikula, C.P.A.  
Frank A. Natschke, C.P.A.  
Susan H. Rosenbaum  
Duane L. Smiley, C.P.A.  
Jeffrey L. Zemke

Audit Supervisors

Kevin C. Baker, C.P.A.  
Karen J. Bosworth, C.P.A.  
Michele M. Elms, C.P.A.  
Michael T. Gardner, C.P.A.  
Daniel T. Jaroche, C.P.A.  
Brian K. Kent, C.P.A.  
Charles R. Kern II, C.I.S.A.

Justin C. Londo  
Lori S. Mullins, C.I.S.A.  
Silhouette T. Penn, C.P.A.  
Carri A. Simon, C.P.A.  
Michael J. Ventura, C.P.A.  
Mary Kay Walker

Senior Auditors

Ryan C. Austin  
Kevin D. Bashore  
Lori M. Beltran, C.P.A.  
James A. Berridge  
Kelly L. Blessing  
Brian T. Buckner  
Patricia A. Chooi, C.P.A.  
Aaron S. David  
Leah M. Decker  
Michael J. Foerster  
Hilary J. Goerge  
Julius Hampton Jr.  
Shawna M. Hessling  
Pamela M. Huffman, C.P.A.  
Paul J. Jacokes, C.P.A.

Corrie A. Jameson, C.P.A.  
Ivy M. Jaroche  
Mark A. Lee  
Susan D. Morway  
Carol A. O'Callaghan, C.P.A.  
Thomas D. Ongstad  
Allison M. Pierce  
Ryan L. Riley  
Eileen M. Schneider, C.P.A.  
Gregory J. Schroll, C.P.A.  
Nancy Jo Serna, C.P.A.  
Julie L. Trierweiler, C.P.A.  
Laura M. Ventura  
Rod A. Wlock

Staff Auditors

Dawn M. Anderson  
Jessica C. Armstrong  
Kayla M. Bengel  
Angela M. Brown-Schafer  
Christina J. Carlson  
Courtney M. Carroll, C.P.A.  
Diane L. DeLuca, C.P.A.  
Bethany M. Duperron  
Adam D. Feldpausch  
Jill E. Gard  
Robin E. Garity, C.P.A.  
Lisa S. Harral, C.P.A.  
Connie M. Jones, C.P.A.  
Lisa R. Kreiter

Ann W. McHenry, C.P.A.  
Dennis M. McMillan, C.P.A.  
Rebecca J. Murray  
Michele L. Novak  
Christopher C. Oosterhoff  
Pamela J. Platter  
Christopher M. Schafer  
Sara A. Schondelmayer  
Francis W. Thelen  
Audra C. Turner, C.P.A.  
Jason M. Werner  
Scott R. Werner

**PROFESSIONAL PRACTICE**

Craig M. Murray, C.P.A., C.I.A., Director

Audit Report Review

Julie E.B. Chamberlain, C.P.A.,  
Managing Editor  
Kelly L. Bengel, C.P.A.  
Amy M. Sands

Quality Assurance

Alvin D. Bonds  
Sid V. Lundquist  
Mary A. Waterhouse, C.P.A.

Research and Professional Standards

Ronald A. Yarsevich, C.P.A.

**INFORMATION TECHNOLOGY**

Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E., Chief Information Officer  
Jeffrey J. Mikula, C.N.A., Assistant Chief Information Officer

Local Area Network and Computer

Gabriele E. Brazee  
Joshua N. Galloway  
Thomas D. Mason, C.N.A.  
Jason M. Michels, C.N.A.

Software Assistance

Andrew A. Mitchell, Supervisor  
Erica L. Morris, C.P.A., C.I.S.A.,  
Supervisor  
David E. Batz, C.P.A., C.I.S.A.  
Elizabeth A. Torres

**ADMINISTRATION**

Paul J. Green, C.P.A., C.I.A., C.I.S.A., Director

Human Resources

Jackie S. Lawson, C.P.A., Assistant  
Director  
Stephanie S. Roach, Professional  
Development Coordinator  
Mary Jo Baker, Human Resources  
Analyst

Office Services

Suzanne M. Kinney, Supervisor  
Kelly R. Ancel  
Rick L. Ettinger

Administrative Information Services

Stephanie S. Roach  
Dennis J. Strzalkowski

Clerical Support

Theresa M. Fedewa  
Amanda A. Feldpausch  
Caitlin J. Feldpausch  
Donna J. Glowacki  
Abbie R. Keilen  
Jarita E. Qawwee  
Adrianne M. Weber

## Types of Audits and Services Performed by the OAG

### Financial Audits

- Financial statement audits are designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include providing special reports for specified elements, accounts, or items of a financial statement and/or financial schedule.
- Single Audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all financial report users, including an entity's federal grantor agencies. Single Audits require the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133.

---

*Various types  
of audits  
complement  
each other.*

---

### Performance Audits

Performance audits, which include economy and efficiency audits and program audits, are designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve operational effectiveness and efficiency, to improve public accountability, and to facilitate decision making by parties responsible for overseeing or initiating corrective action. The OAG also follows up material audit findings from its performance audits to determine whether agencies complied with OAG recommendations.

### Attestation Engagements

Attestation engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. An attestation engagement can cover a broad range of financial or nonfinancial subjects.

### Professional Standards

OAG audits are performed in accordance with the following professional standards:

- Generally accepted auditing standards of the American Institute of Certified Public Accountants
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The federal Single Audit Act Amendments of 1996 and implementing regulations

---

---

***Professional standards are strictly adhered to.***

---

---

### External Quality Control Review

A six-person National State Auditors Association external quality control review (peer review) team visited our office in September 2006 to perform the triennial peer review of OAG operations as required by *Government Auditing Standards*. The team provided the OAG with an unmodified opinion report on the OAG's system of quality control for the period October 1, 2005 through September 30, 2006. An unmodified opinion means that the peer review team concluded that our system of quality control was "suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards." This marks the OAG's seventh straight "clean" opinion on its system of quality control.

### Independence

*Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the OAG's independence in providing auditing and other attestation services.

---

---

***Independence standards are followed.***

---

---

## Value of OAG Reports

### To the Legislature

---

---

***Information from audit reports can be used in making informed decisions with confidence.***

---

---

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The OAG also responds directly to requests from any member of the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Annually, OAG reports contain hundreds of recommendations that identify opportunities for improving effectiveness and efficiency in State operations and provide information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding. These recommendations have historically identified potential annual financial savings of tens of millions of dollars.

In fiscal years 2006-07 and 2007-08, our audits identified potential savings to the State of \$361.9 million.

### To the Auditee

OAG reports provide objective, unbiased, and independently developed information about the auditee's operations that can be used by management to improve its methods of operating. OAG recommendations, when implemented, frequently result in more effective, efficient, and economical programs.

### To Third Parties

---

---

***Many third party readers, including investors and creditors, and the citizens of Michigan use OAG audit reports.***

---

---

Investors and creditors obtain OAG reports and use them as a source of information that they can rely on to make decisions. For example, the *State of Michigan Comprehensive Annual Financial Report*, which includes the Auditor General's opinion regarding fair presentation in conformity with generally accepted accounting principles, is relied on by the financial community in setting bond ratings for State-issued debt. This report consistently qualifies for the annual Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association.

Also, OAG Single Audit reports satisfy the federal government's demand for accountability of federal funds allocated to the State of Michigan.

To the Citizens of the State of Michigan

The citizens have confidence in knowing that the Legislature is aggressive in its oversight and accountability of money paid to the State in the form of taxes, fees, and other revenue and prudent in expending funds in accordance with statutes and regulations.

**To Whom and How Audit Reports Are Issued**

Audit reports issued by the OAG are typically addressed to the audited entity's chief executive officer and/or the chair of its governing board or commission. Audit reports are typically forwarded via e-mail.

On the day prior to the official release date of an audit report, copies of the audit report are sent to the following:

- The audited entity's chief executive officer and/or the chair of its governing board or commission
- House and Senate Quadrant Leadership
- Relevant House and Senate Standing Committee members
- Office of the Governor
- The legislator(s) who requested the audit (if applicable)

---

***The audit report release process ensures broad distribution.***

---

On the official release date, copies of the audit report are also sent to the following:

- All legislators
- House and Senate Fiscal Agencies
- Office of Financial Management, Department of Management and Budget (DMB)
- All others who have specifically requested a copy of the report being issued

The OAG does not issue press releases on any audit report. However, a copy of each audit report is sent to the Capitol pressroom.

**OAG Contact With the Legislature**

The audit report is the formal written contact that the OAG has with the Legislature. The OAG routinely provides legislative briefings to key members of oversight and appropriations committees and other members of the Legislature who have expressed a particular interest in specific topics or audit reports.

---

***Audit reports, briefings, and hearings are ways that the OAG works with the Legislature.***

---

In several instances, audit report briefings have resulted in legislators requesting OAG staff to testify at hearings on the audit report itself.

The Auditor General also testifies periodically on audit-related activities, as requested by the Legislature.

### **Reaction and Response to an Audit Report**

---

***Follow-up of OAG audit reports is provided for in law and administrative procedure.***

---

Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) establish requirements for following up on audit findings and recommendations for executive branch departments and subunits. The audited departments are required to develop formal responses to OAG audit findings and recommendations. This follow-up is in addition to the agency's preliminary response that is included in each OAG audit report.

---

***Audited agencies must submit a formal response within 60 days after release of the audit report.***

---

Audited agencies must submit a formal response covering all audit findings and recommendations to the director of the DMB Office of Financial Management within 60 days after release of the audit report, along with a response summary sheet indicating: (1) action completed, (2) recommendations to be complied with, and (3) contested findings and recommendations. Copies are also sent to the DMB Office of the State Budget as well as to the OAG.

Each response must state the agency's agreement or disagreement with the findings and recommendations. If in agreement, the response is to: (1) state the actions taken to address the findings and recommendations and when each action was completed or (2) state what actions will be taken to address the findings and recommendations and when such actions will be completed. If the audited entity is contesting audit findings or recommendations, the entity notes the specific area of disagreement and reason(s) for disagreement.

When the OAG performs an audit of a university or community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the OAG, the House and Senate Fiscal Agencies, and the State Budget Director. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Department of Labor

and Economic Growth. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

### **OAG Follow-Up on Material Findings**

Audit reports that contain material findings and recommendations are routinely followed up with a limited scope engagement approximately six months after the auditee has indicated compliance. In this way, the OAG can review the extent of compliance with the recommendations and provide users of the audit report with timely information.

### **Subsequent Audits**

The preparation for subsequent audits begins with a preliminary survey, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG recommendations. Therefore, the OAG is able to review the status of all of the prior audit recommendations. For most recommendations, compliance will have been satisfactorily achieved. However, when compliance has not been achieved and the facts are substantially the same as before, the OAG will repeat the audit finding and recommendation(s) in the current report.

---

---

***Material findings and recommendations are routinely followed up approximately six months after the auditee has indicated compliance.***

---

---

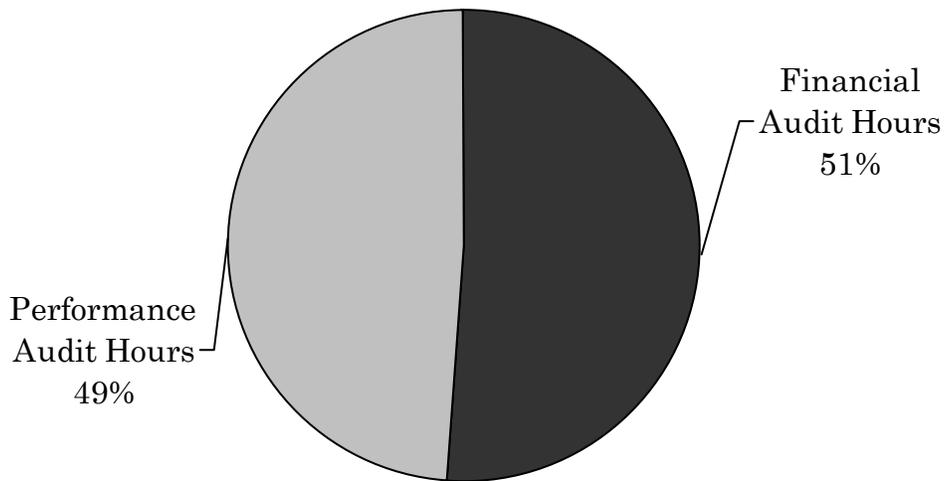
The Bureau of Audit Operations is responsible for financial and performance audits of all State government operations. The Bureau develops an annual audit plan in which audits are scheduled in accordance with a risk-based assessment. The Bureau conducts financial audits to support the OAG's opinion on the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, to meet State and federal Single Audit Act requirements, and to comply with other State mandates. The Bureau conducts performance audits on a priority basis related to their potential for improving program effectiveness and efficiency.

The Bureau completed 105 audit and letter reports during fiscal years 2006-07 and 2007-08 (see listings by fiscal year starting on page 47). In addition, in each fiscal year, the Bureau contracted with public accounting firms for 22 financial audits, typically annual audits of State authorities. Contracting with these public accounting firms enables the Bureau to avoid excessive peak seasonal work loads, to complete the financial audits on a timely basis, and to allocate limited professional staff resources to help meet the OAG's increasing demands for performance audits.

The following chart shows the distribution of direct audit hours used for the different types of audits in fiscal years 2006-07 and 2007-08:

**DISTRIBUTION OF DIRECT AUDIT HOURS**

**FISCAL YEARS 2006-07 AND 2007-08**



■ Financial Audit Hours 51%:	
<i>SOMCAFR</i> Audit Hours	14%
Single Audit Hours	33%
Other Financial Audits Hours	4%

## **Performance Audits**

Performance audits are conducted on a priority basis related to the potential for improving State government operations. The Bureau's primary objective for conducting performance audits is to improve the effectiveness and efficiency of State government operations. Effectiveness is producing the outcome desired by the citizens of Michigan and mandated by the Legislature, and efficiency is a measure of useful services delivered compared with the resources applied. Approximately 49% of the Bureau's direct audit hours were used for performance audits in fiscal years 2006-07 and 2007-08.

Our performance audits resulted in numerous recommendations for further improving the programs audited. Following are highlights from some of our performance audit reports:

### Court Originated Liability Section, Medical Services Administration, Department of Community Health (DCH) (Fiscal Year 2006-07)

The audit report contained 11 audit findings, including 7 that were classified as material conditions. The audit report disclosed that DCH either missed or may miss the opportunity for potential Medicaid cost recoveries totaling up to an estimated \$208.1 million (\$90.1 million State General Fund/general purpose funding), including:

DCH did not coordinate with applicable State and local offices to ensure that the Wayne County Friend of the Court requested and sought reimbursement from the fathers of children not born to a marriage for the pregnancy and birthing-related Medicaid costs of Wayne County recipients involved in child support actions. As a result, DCH missed an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$114.8 million.

Also, DCH did not include some pregnancy and birthing-related Medicaid costs on the reports provided to the governmental agencies involved in recovering the costs for Medicaid from the children's fathers. DCH either missed or may miss an opportunity for potential Medicaid cost recoveries totaling up to an estimated \$28.5 million and \$16.6 million, respectively.

In addition, DCH did not use State motor vehicle and workers' compensation files to identify recipients with Medicaid costs related to injuries sustained in motor vehicle accidents or at work. As a result, DCH missed potential Medicaid cost recoveries totaling an estimated \$10.6 million. Further, DCH did not have a sufficient basis for accepting partial payments from some third parties as full payment of their Medicaid liabilities. Also, DCH did not identify some accident-related Medicaid costs for recipients when pursuing recovery from other liable third parties. As a result, DCH missed Medicaid cost recoveries totaling an estimated \$5.0 million.

Suitability of Child Development and Care (CDC) Program Providers, Department of Human Services (DHS) (Fiscal Year 2007-08)

Through various criminal history and background information checks, we identified approximately 1,900 unsuitable child day-care providers that DHS had authorized to provide child care services. As a result, DHS potentially placed approximately 4,600 CDC Program children at risk. The audit report contains 10 findings, 9 of which were classified as material conditions.

DHS's Central Registry records check processes were not effective in identifying individuals with substantiated histories as perpetrators of child abuse and/or neglect and preventing them from providing child day-care services. As a result, DHS authorized 428 unsuitable individuals listed on its Central Registry as perpetrators of child abuse and neglect to provide child day-care services for 1,018 CDC Program children.

Also, DHS had not implemented effective controls to detect day-care aide and relative care provider applicants with unsuitable criminal histories and prevent their enrollment as child day-care providers. As a result, DHS enrolled 712 child day-care providers with unsuitable criminal conviction histories recorded in their Internet Criminal History Access Tool (ICHAT) records at the time of enrollment. DHS authorized these unsuitable providers to care for 1,566 CDC Program children.

In addition, DHS did not include a review of the Public Sex Offender Registry in its criminal history check procedures for child day-care providers to help detect publicly registered sex offenders and prevent them from providing child day-care services. As a result, DHS did not detect 31 child day-care providers who were publicly registered sex offenders and authorized them to provide child day-care services for CDC Program children. Further, DHS did not consistently perform monthly ICHAT records checks to identify active child day-care providers with unsuitable criminal convictions.

Child Development and Care (CDC) Program Payments, Department of Human Services (DHS) (Fiscal Year 2007-08)

The audit report contains 12 findings, 7 of which were classified as material conditions. We estimated that DHS made potential improper and, in some cases, potentially fraudulent CDC Program payments of \$231 million.

DHS improperly provided CDC Program resources to parents who did not demonstrate a verified need for, or request, childcare assistance. As a result, we estimate that DHS improperly expended CDC Program resources of \$223 million during the audit period.

Also, DHS had not implemented controls to help ensure that it authorized and paid for CDC Program-funded childcare services only while parents worked or

participated in approved activities and when children needed childcare services. As a result, DHS did not help prevent the improper use of an estimated \$63 million in CDC Program resources during the audit period.

In addition, DHS had not established effective controls to help prevent improper and potentially fraudulent overbillings by CDC Program providers. As a result, we estimate that DHS made improper and, in some instances, potentially fraudulent childcare payments of \$147 million during the audit period.

Further, DHS had not implemented effective controls to help ensure that CDC Program relative care providers met its established relationship requirements. As a result, DHS allowed childcare providers to care for unrelated children in the providers' homes without a license. DHS paid these individuals an estimated \$7 million in improper and, in some cases, potentially fraudulent childcare payments.

Prisoner Food Services, Department of Corrections (DOC) (Fiscal Year 2007-08)

DOC needs to consider additional ways to reduce the costs of providing prisoner meals. DOC lacks assurance that its food service operations budget (\$92.9 million for fiscal year 2006-07) is utilized efficiently. If DOC had a contracting arrangement similar to other states' contracting arrangements, we estimate that it could potentially realize significant annual savings in its food services program. For example, we estimate that Michigan could save from \$10.2 million to \$38.0 million annually if it were able to negotiate the same contracted rates as Kansas or Florida, respectively.

DOC did not effectively monitor food production. As a result, DOC lacked the data necessary to properly forecast food production needs, prepared and served excess meals to prisoners and staff, and did not document the disposition of leftovers. In addition, failure to effectively monitor food production may impair DOC's ability to control food services costs. We estimate that the value of the excess entrées prepared, the excess meals served, and the unaccounted for leftovers was approximately \$1.2 million Statewide annually.

DOC's correctional facilities did not consistently ensure that they obtained food commodities at the best price. As a result, facilities may have missed opportunities to realize cost savings related to food purchases. DOC expended a total of \$46.2 million for food commodities in fiscal year 2006-07.

Prisoner Medical and Dental Services, Department of Corrections (DOC) (Fiscal Year 2007-08)

The Bureau of Health Care Services (BHCS) should improve its monitoring of the managed health care and pharmaceutical contracts. DOC expended \$180.5 million and \$213.7 million on selected prisoner health care services, which included \$57.7 million and \$72.9 million for contracted specialty services and \$29.1 million

and \$27.1 million for pharmaceuticals in fiscal years 2004-05 and 2005-06, respectively.

In addition, BHCS did not conduct all required chronic condition medical evaluations, routine annual health care screenings, and clinic visits resulting from prisoner requests for health care services. Also, BHCS did not ensure that it provided these evaluations, screenings, and clinic visits within time frames established in its policies and procedures. As a result, BHCS may have jeopardized its ability to identify, manage, and treat potentially serious medical conditions before they became more severe and costly to treat or before they became a threat to the prison population and staff.

Further, DOC should improve controls related to maintaining and distributing restricted medications. Also, DOC did not effectively monitor the disposal of unused or expired medications or medications returned to the pharmacy contractor. In addition, BHCS did not document the justification for the use of a brand name or nonformulary drug rather than a generic or formulary drug. BHCS purchased approximately \$641,000 in brand name drugs that had generic equivalents between October 2003 and April 2006.

Individual Income Tax (IIT) Return Processing, Department of Treasury (Fiscal Year 2006-07)

The Department's Return Processing Division (RPD) had not established a comprehensive system of automated data comparisons to sufficiently validate the accuracy of certain income tax deductions claimed by taxpayers on their Michigan IIT returns. Also, RPD did not use all of the procedures available within its current system of automated data comparisons to validate the reasonableness of income tax deduction amounts claimed by taxpayers on their IIT returns. RPD could not ensure the propriety of significant State income tax deductions claimed by taxpayers for tax years 2001 through 2004.

In addition, RPD did not consistently utilize its process to identify taxpayers who failed to file annual returns or who did not remit the appropriate IIT as required by the Income Tax Act. As a result, the State incurred a potential loss of income tax revenue totaling at least \$10.2 million from nonfilers for one tax year and a cumulative \$9.5 million from underreporters for three tax years within our audit period.

Per Section 205.28 of the *Michigan Compiled Laws*, certain aspects of tax auditing and collection, particularly audit selection criteria, are protected, nonpublic data. As a result, our report summarized weaknesses in the collection and processing of IIT returns and did not report some of our audit results in detail. We separately reported specific weaknesses in processes and systems to the Department of Treasury management in accordance with generally accepted government auditing standards.

Special Alternative Incarceration Program (SAI), Department of Corrections (DOC)  
(Fiscal Year 2006-07)

DOC had not developed a comprehensive process to assist in evaluating the success of SAI. Consequently, DOC was unable to evaluate the overall effectiveness of SAI and support its efforts to expand the program. We determined that the State could save approximately \$2.5 million annually if SAI operated at full capacity.

Parole Supervision and Parole Hearing Process, Department of Corrections (DOC)  
(Fiscal Year 2007-08)

DOC should take the necessary steps to obtain access to other State databases to help locate absconders, including requesting an Attorney General opinion, seeking amendatory legislation, and establishing reciprocal data sharing agreements with other State departments. Without access, DOC may have missed opportunities to locate and apprehend absconders, including some absconders who may be considered a risk to public safety.

Also, DOC did not always comply with its policies for supervising parolees. Improper monitoring of parolees increases the risk to public safety. In addition, DOC did not effectively monitor the contract agency responsible for investigating, locating, and arresting Region I absconders. As a result, DOC could not ensure that minimum supervision standards were maintained and that active absconders were thoroughly investigated, located, and arrested.

Further, DOC did not properly document that parolees met the requirements for discharge. Documenting the discharge eligibility helps DOC to ensure that parolees are properly discharged and to enhance public safety. Also, DOC parole agents did not properly update OMNI. As a result, DOC could not ensure that parolee supervision data was accurate and complete.

Program Investigation Section Processes to Identify Improper Payments, Bureau of  
Medicaid Financial Management and Administrative Services, Medical Services  
Administration, Department of Community Health (DCH) (Fiscal Year 2007-08)

DCH did not sufficiently investigate potential improper Medicaid payments identified in audits of pharmacy providers as required by federal regulations. As a result, DCH did not review the propriety of approximately \$432,000 of potential improper payments made during fiscal year 2003-04. Based on DCH's settlement rate with Medicaid providers, we estimated that DCH could have increased its recovery settlements by as much as \$233,000 during this period.

School Report Card Program, Michigan Department of Education (MDE) (Fiscal Year 2007-08)

The audit report contained 12 findings, 5 of which were classified as material conditions.

MDE, in conjunction with the Michigan Department of Information Technology, had not implemented sufficient management controls to help detect and correct inaccuracies and inconsistencies in programming logic used to compile School Report Card results. As a result, MDE reported inaccurate components of Annual Yearly Progress (AYP) status and *Education YES!* grades for at least 620 schools, which may have resulted in MDE incorrectly reporting some schools and districts as meeting AYP.

Tuition and Other Financial Obligations Assessed to Students at Michigan Public Universities (Fiscal Year 2006-07)

During fiscal years 2001-02 through 2005-06, the average tuition and fee revenue increases per fiscal year equated student for Michigan public universities ranged from 25.20% to 57.98% with an average four-year increase of 37.09%. Based on a national comparison, Michigan received a failing grade for college affordability in 2004 and led the nation with the largest dollar increase in published tuition and fees for public universities in academic year 2005-06.

As part of their fiscal year 2004-05 State appropriation, all Michigan public universities received a tuition restraint incentive because they limited increases in tuition and required fees assessments to the restraint amounts identified in Act 352, P.A. 2004. However, because the definition of required fees and the reporting requirements set forth by the Department of Management and Budget (DMB) to qualify for the incentive did not include a myriad of additional fees that a university may assess its students, approximately \$92.1 million in fees escaped the purview of DMB's reporting mechanism and were not certified in DMB's tuition and fee calculation and certification process.

Consumer Finance Activities, Office of Financial and Insurance Regulation (OFIR), Department of Labor and Economic Growth (Fiscal Year 2007-08)

OFIR had not implemented sufficient prevention and intervention approaches to combat predatory lending. Such approaches would help ensure that OFIR's techniques reduce instances of predatory lending and protect consumers against unlawful actions.

Also, OFIR had not completed sufficient consumer finance examinations and investigations to provide a regulatory presence within the consumer finance industry. As a result, OFIR's examination and investigation efforts had not established, within the consumer finance industry, accountability and fear of retribution for engaging in illegal activities.

Severance and Motor Carrier Fuel Tax Collections, Department of Treasury (Fiscal Year 2007-08)

The Department's efforts in pursuing opportunities to detect underpayment or nonpayment of severance taxes were not effective. The Department had not developed a comprehensive tax administration process to help ensure taxpayer compliance with applicable severance tax statutes. As a result the Department could not ensure the propriety of severance taxes remitted by taxpayers.

Economic Development Fund (EDF), Michigan Department of Transportation (MDOT) (Fiscal Year 2007-08)

MDOT did not complete a postproject verification of the actual jobs created or other economic benefits for the projects completed and funded by EDF. As a result, MDOT did not have a substantiated basis to report the number of jobs created and retained and other economic benefits derived from projects completed and funded by EDF as required by State law. Further, MDOT did not have a substantiated basis to evaluate the success of EDF.

**Financial Audits**

Approximately 51% of our direct audit hours were used for financial audits in fiscal years 2006-07 and 2007-08. The OAG conducts three types of financial audits:

1. An annual audit of the entire State entity reported in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Approximately 14% of our direct audit hours were used to conduct the fiscal year 2005-06 and 2006-07 SOMCAFR audits.
2. Biennial audits, in conformance with the federal Single Audit Act Amendments of 1996, of State departments that receive significant federal funding. Approximately 33% of our direct audit hours were used to conduct fiscal year 2006-07 and 2007-08 Single Audits.
3. Periodic audits of other departments, funds, and component units. The composition and frequency of the financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 4% of our direct audit hours were used to conduct other financial audits in fiscal years 2006-07 and 2007-08.

The OAG is committed to reducing the amount of resources used to conduct financial audits while maintaining high audit quality and conformance with all applicable auditing standards. Increased efficiencies from financial audits will be used to provide the resources for the OAG's increasing demands for performance audits.

SOMCAFR Audit

The *SOMCAFR* is prepared by the Office of Financial Management (OFM), Department of Management and Budget (DMB). The *SOMCAFR* is composed of the basic financial statements of the State of Michigan, which include the government-wide financial statements, fund financial statements for the State's major funds, combining and individual fund financial statements for nonmajor funds, and statistical data. Included in the State's reporting entity are all funds, departments and agencies, bureaus, boards, commissions, and authorities that are considered an integral part of the primary government. Also included are component units, consisting of 18 authorities and 10 public universities in both fiscal years 2005-06 and 2006-07, for which the State is financially accountable.

The OAG annually audits the *SOMCAFR* and the Auditor General issues an independent auditor's report on the State's financial statements. For fiscal years 2005-06 and 2006-07, the Auditor General's independent auditor's report, dated March 28, 2007 and December 28, 2007, respectively, included unqualified opinions for each of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds.

The OAG recommended 45 audit adjustments of \$1.4 billion during fiscal years 2005-06 and 2006-07. State agencies and OFM made correcting entries for 20 of the 45 recommended adjustments. The net effect of the uncorrected adjustments was \$7.0 million in the government-wide statements and \$168.2 million in the fund level statements for fiscal years 2005-06 and 2006-07.

We reported the following internal control weaknesses in our fiscal year 2005-06 *SOMCAFR* management letter:

- The Department of Community Health (DCH) did not cost settle claims with inpatient hospitals in a timely manner. These delays resulted in an increased risk that DCH will be unable to collect amounts that may have been overpaid to hospitals. Medicaid inpatient claims totaled \$510.1 million in fiscal year 2005-06, and the Medicaid inpatient hospital year-end net accounts payable totaled \$101.7 million as of September 30, 2006.
- DCH made disproportionate share hospital payment advances of \$30.2 million without prior approval from OFM. The lack of notification and request for approval does not allow the State Treasurer to monitor and ensure that the State has sufficient cash flow resources for payments that are in addition to normal government operations.

We reported the following internal control weaknesses in our fiscal year 2006-07 *SOMCAFR* management letter:

- The Department of Treasury did not ensure that the third party service organization's controls over the collection and processing of State revenue deposits were in place and operating as intended. The Department of Treasury contracted with a service organization to collect and process over \$24 billion in tax revenue.
- DCH did not comply with State statute related to contract payments to Community Mental Health Services Programs (CMHSPs). In fiscal year 2006-07, DCH was appropriated State funds totaling \$446.5 million to provide mental health services through contracts with the 46 CMHSPs.
- DCH did not have sufficient internal control over the Medicaid Adult Home Help Program to ensure that services provided to Medicaid beneficiaries were properly authorized. In fiscal year 2006-07, DCH recorded \$207.8 million in Adult Home Help Program expenditures to an estimated 57,200 providers.
- DCH had not implemented sufficient controls over the calculations made for the Medicaid third party liability accrual. As a result, DCH could not provide assurance that it had recorded the \$13.5 million liability in accordance with its approved estimation methodology.

#### Single Audits

In July 1996, the federal Single Audit Act was amended and the U.S. Office of Management and Budget (OMB) expanded and reissued Circular A-133 as the audit requirement for state and local governments. The Single Audit Act requires state and local governments receiving \$300,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit, including an assessment of the entity's compliance with federal program requirements. The recipients of the federal funding are required to submit the audit reports to the federal government within nine months of the end of the fiscal year.

In fiscal years 2006-07 and 2007-08, we conducted 19 Single Audits and reported total net questioned costs of \$164.5 million.

We conducted the following Single Audits during fiscal year 2006-07:

1. Department of Agriculture
2. Department of Attorney General
3. Department of Civil Rights
4. Department of History, Arts and Libraries
5. Department of Human Services
6. Department of Labor and Economic Growth
7. Department of State

8. Michigan Economic Development Corporation
9. Michigan Strategic Fund
10. Michigan Department of Transportation
11. State-Funded Judicial Operations

The material exceptions are summarized below:

- Department of History, Arts and Libraries

The Department did not maximize its use of federal sources of financing by billing for indirect costs and by expending federal funds before using State General Fund/general purpose appropriations. As a result, the Department used State General Fund/general purpose appropriations to pay for indirect, administrative, and direct federal program costs that could have been paid for with federal funds.

The Department had not established internal control over the Historic Preservation Fund Grants-In-Aid Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and reporting. Our review disclosed material weaknesses in internal control and material noncompliance regarding allowable costs/cost principles; matching, level of effort, and earmarking; and reporting. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Historic Preservation Fund Grants - In-Aid Program and we questioned costs in the amount of \$1.4 million.

- Department of Human Services

We concluded that the Department did not comply with federal program requirements regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; subrecipient monitoring; and special tests and provisions. This noncompliance resulted in our issuance of adverse opinions for the following programs: Violence Against Women Formula Grants, Child Care and Development Fund Cluster, and Chafee Foster Care Independence Program. In addition, we issued qualified opinions on the Temporary Assistance for Needy Families Program; Refugee and Entrant Assistance: State Administered Programs; Low-Income Home Energy Assistance Program; Child Welfare Services: State Grants Program; Foster Care: Title IV-E Program; and Social Services Block Grant Program. Further, the Department was unable to provide sufficient documentation supporting the Department's compliance with the matching, level of effort, and earmarking requirements for the Child Welfare Services: State Grants Program. We reported total questioned costs of \$96.0 million and known and likely questioned costs of \$518.6 million.

In addition, we concluded that the Department, in conjunction with the Department of Information Technology, did not establish and implement

comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, the Department could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

- Department of Labor and Economic Growth  
The Department's internal control did not ensure that the Labor Force Statistics Program complied with federal laws and regulations regarding allowable costs/cost principles. As a result, we questioned costs in the amount of \$1.1 million. We consider this condition to be a material weakness, which resulted in material noncompliance and the issuance of a qualified opinion for the Labor Force Statistics Program.

We conducted the following Single Audits during fiscal year 2007-08:

1. Department of Community Health
2. Department of Corrections
3. Department of Environmental Quality
4. Department of Military and Veterans Affairs
5. Department of Natural Resources
6. Michigan Department of Education
7. Michigan Department of State Police
8. Michigan Early Childhood Investment Corporation

The material exceptions are summarized below:

- Department of Community Health  
The Department's internal control was not sufficient to ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements. Also, the Department did not effectively use its biennial internal control evaluation process to monitor its system of internal control. As a result, we identified significant deficiencies in internal control over financial reporting and federal program compliance for 10 of 11 major programs audited as part of this Single Audit.

The Department's internal control over the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Our review disclosed material weaknesses in internal control over federal laws and regulations regarding allowable costs/cost principles.

We concluded that the Department did not comply with federal program requirements regarding special tests and provisions and allowable costs/cost principles that are applicable to its Immunization Grants and State Children's

Insurance Program, respectively. We also concluded that the Department did not comply with federal program requirements, collectively, regarding special tests and provisions, allowable costs/cost principles, reporting, and subrecipient monitoring, that are applicable to its Medicaid Cluster. As a result, we issued qualified opinions on these three programs. We reported total questioned costs of \$57.9 million and known and likely questioned costs totaling \$57.9 million.

- Department of Military and Veterans Affairs

We concluded that the Department did not comply with federal program requirements regarding allowable costs/cost principles and reporting. This resulted in a qualified opinion for the National Guard Civilian Youth Opportunities Program. We reported known questioned costs of \$24,186 and known and likely questioned costs of \$1.1 million.

- Michigan Department of Education

The Michigan Department of Education (MDE), in conjunction with the Michigan Department of Information Technology (MDIT), did not implement a comprehensive security program to protect its information systems and data. In addition, MDE and MDIT's implementation of MDE's new Cash Management System (CMS) did not ensure that subrecipients received only the payments to which they were entitled.

Without a comprehensive security program, management cannot ensure that MDE's internal control is operating as intended and that the integrity of its data is safeguarded. Insufficient internal control over implementation of the new CMS resulted in \$9.7 million of improper payments to local educational agencies.

#### Other Financial Audits

The OAG conducts financial audits of certain funds, subfunds of the General Fund, and component units. Many of these audits are mandated by State statutes.

We conduct our financial audits in accordance with *Government Auditing Standards*; therefore, our audit objectives include (1) assessing and reporting on compliance with certain provisions of laws, regulations, contracts, and grants and on internal control over financial reporting and (2) auditing the financial statements and/or financial schedules.

During fiscal year 2006-07, we conducted the following financial audits:

1. Commercial Mobile Radio Service Emergency Telephone Fund
2. Michigan Broadband Development Authority
3. Michigan Early Childhood Investment Corporation
4. Michigan Education Trust Plans B and C
5. Michigan Education Trust Plan D
6. Michigan Justice Training Fund
7. Michigan State Fair and Exposition Center
8. Michigan Tobacco Settlement Finance Authority

We noted the following material exception:

Michigan Early Childhood Investment Corporation (ECIC)

ECIC did not have effective internal control to help ensure the reliability of its financial reporting and compliance with State laws and grant agreements. We identified internal control weaknesses such as insufficient knowledge related to governmental financial accounting and reporting; missing documents to support expenditures, assets, and liabilities; and insufficient grant management oversight procedures.

During fiscal year 2007-08, we conducted the following financial audits:

1. Commercial Mobile Radio Service Emergency Telephone Fund
2. Michigan Economic Development Corporation
3. Michigan Education Trust Plans B and C
4. Michigan Education Trust Plan D
5. Michigan Exposition and Fairgrounds Authority
6. Michigan Justice Training Fund
7. Michigan Legislative Retirement System
8. Michigan Strategic Fund
9. Michigan Tobacco Settlement Finance Authority

## **Legislative Requests**

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature confidently use in making State policy decisions. The OAG responds directly to requests from any member of the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Legislators often become aware of problems or areas of concern and communicate them to the OAG for review. Legislators' intimate knowledge of State government programs and their close contact with constituents provide an important resource for the OAG's risk assessment process for identifying audit priorities.

---

***Responding to legislative requests is an important function of our office.***

---

Responding to legislative requests is an important function of our office because the OAG is the only agency in State government that has the sole responsibility to act as the overseer of public funds on behalf of the Legislature.

Sometimes the OAG addresses legislative requests within the scope of performance audits. In other instances, if the scope of the request is narrow and/or time is of the essence, the requests are satisfied through special projects and review reports. Requests frequently result in the OAG evaluating program outcomes, analyzing program expenditures, and determining if program operations were in compliance with applicable statutes and regulations.

The OAG's responsiveness to legislative requests clearly serves the public interest. Most audits and reviews resulting from legislative requests have confirmed the existence of problems and resulted in recommendations to correct or improve government operations, sometimes through amendatory legislation. Our responsiveness enhances the Legislature's ability to carry out its oversight responsibilities in a way that is consistent with the best interests of the citizens of Michigan.

## **National Awards**

### **National Legislative Program Evaluation Society (NLPES)**

The OAG actively participates in NLPES, which is associated with the National Conference of State Legislatures. All legislative staff who conduct program evaluations or performance audits are NLPES members. NLPES promotes professionalism, training, and the exchange of ideas and information about legislative program evaluation.

NLPES annually solicits its members to submit one released report for consideration of an "Impact Award." This national award honors participating legislative offices that have produced work which has demonstrably improved state government. NLPES's selection criteria for the award are:

- Dollar savings from implementing audit recommendations.
- Program improvements as a result of implementing audit recommendations.
- Impacts from the legislature's perspective.
- Impacts from the public perspective.
- Impacts from other organizations' perspective.

The OAG earned Impact Awards in both fiscal years 2006-07 and 2007-08. These national awards recognized the OAG's continued auditing efforts. The OAG has earned Impact Awards for all 10 years that the OAG has participated in the NLPES Awards Program.

2007 NLPES Impact Award

The OAG received a 2007 Impact Award for the performance audit of Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration, Department of Community Health. The audit team consisted of Tom Beuerle (audit manager), Patricia Chooi, Andy Mitchell, Rick Stafford (audit division administrator), and former employees Tamara Torongo and Bryan Weiler (audit supervisor). The audit report contained 4 findings, including 2 material conditions. The report disclosed \$55.1 million in either known or questionable Medicaid overpayments.



The audit team consisted of (left to right) Rick Stafford, Patricia Chooi, Andy Mitchell, and Tom Beuerle. Missing from the picture are former employees Tamara Torongo and Bryan Weiler.

2008 NLPES Impact Award

The OAG received a 2008 Impact Award for the performance audit of High School Graduation and Dropout Rates, Center for Educational Performance and Information (CEPI), Department of Management and Budget. The audit team consisted of Karen Bosworth (audit supervisor), Julius Hampton, Laura Hirst (audit division administrator), Mary Jo Koschay (audit manager), Mary Lowe (audit supervisor), Eileen Schneider, Sara Schondelmayer, and former employee Mary Makovic. The audit report contained 5 findings, including 3 material conditions. The report demonstrated that high school graduation and dropout data used by CEPI in its calculation process was not accurate. In addition, CEPI's process for calculating high school graduation and dropout rates was moderately effective.



The audit team consisted of (left to right) Laura Hirst, Karen Bosworth, Sara Schondelmayer, Julius Hampton, Mary Lowe, and Eileen Schneider. Missing from the picture are Mary Jo Koschay and former employee Mary Makovic.

### **Audit Operations Project Team Award**

The Audit Operations Project Team Award (AOPTA), established in 1992, recognizes exceptional efforts of audit teams within the Bureau of Audit Operations on a biannual basis.

#### December 2006 AOPTA

The performance audit of Individual Income Tax Return Processing, Department of Treasury, is the winner of the AOPTA for the six-month period ended December 31, 2006. The audit team consisted of Mark Freeman (audit division administrator), Andy Mitchell, Therese Regner (audit division administrator), Gerry Schwandt (audit manager), Mike Ventura, and former employees Renee Johnson-Maybee, Tom Kuslikis, and Julie Manning. The report contained 8 findings, including 2 material conditions, and identified over \$20 million in estimated savings.

The effectiveness of income tax processing and tax collections is of key concern to the executive and legislative branches. The confidentiality of tax processing procedures made it difficult to draft a report that was clear, concise, and informative, while avoiding the disclosure of confidential information. The audit supervisor met numerous times with the agency during the report processing to ensure that confidential tax processing information was not disclosed in the report.



The award for the six-month period ended December 31, 2006 was presented to the team of (left to right) Mark Freeman, Mike Ventura, Therese Regner, Andy Mitchell, and Gerry Schwandt. Missing from the picture are former employees Renee Johnson-Maybee, Tom Kuslikis, and Julie Manning.

June 30, 2007 AOPTA

The performance audit of the Court Originated Liability Section, Medical Services Administration, Department of Community Health (DCH), is the winner of the AOPTA for the six-month period ended June 30, 2007. The audit team consisted of Tom Beurele (audit manager), Scot Hazel (audit supervisor), Pam Huffman, Corrie Jameson, Andy Mitchell, Rick Stafford (audit division administrator), and former employee, Aimee Wingle. The audit report contained 11 findings, including 7 material conditions. As a result of the audit, we identified \$208.1 million in potential or missed Medicaid cost recoveries.



The award for the six-month period ended June 30, 2007 was presented to the team of (left to right) Scot Hazel, Rick Stafford, Corrie Jameson, Tom Beuerle, Pam Huffman, and Andy Mitchell. Missing from the picture is former employee Aimee Wingle.

December 2007 AOPTA

The preliminary review of the Bridges Integrated Automated Eligibility Determination System (Bridges), Department of Human Services (DHS), is the winner of the AOPTA for the six-month period ended December 31, 2007. The audit team included Steve Baker (audit division administrator), Shelly Fanson (audit supervisor), Bob Kern, Ryan Riley, and Melissa Schuiling (audit manager). The preliminary review identified 22 observations. Because Bridges was still in the development phase with a pilot of the system to occur within four months and because of the large amount of money still to be spent on Bridges, it was imperative that the issues be brought quickly to the attention of the departments involved and the Legislature. Therefore, rather than issue a standard audit report, the observations were reported in an expedited letter. The audit team worked collectively to develop the 15-page letter containing the observations. In response to the preliminary review, DHS and the Michigan Department of Information Technology hired and appointed two new staff members to manage the project.

The significance of the letter's observations was exemplified by the high level of legislative interest and multiple, ongoing Senate hearings.



The award for the six-month period ended December 31, 2007 was presented to the team of (left to right) Steve Baker, Shelly Fanson, Ryan Riley, Melissa Schuiling, and Bob Kern.

June 2008 AOPTA

The performance audit of the School Report Card Program, Michigan Department of Education (MDE), is the winner of the AOPTA for the six-month period ended June 30, 2008. The audit team included Cheryl Baker (audit supervisor), Jim Berridge, Andy Mitchell, Therese Regner (audit division administrator), Gerry Schwandt (audit manager), Jason Werner, and former employee Tara Keener. The audit crew overcame difficulties that resulted from MDE's limited agency personnel, lack of documentation, and the complexity of the calculations for the School Report Card grades issued for over 3,500 schools.

The report contained 12 findings, including 5 material conditions. MDE took immediate action on many of the findings to prevent future calculation errors. In addition, MDE was provided additional State and federal funds to hire staff to work on the School Report Card process, databases, and Statewide tests development.



The award for the six-month period ended June 30, 2008 was presented to the team of (left to right) Therese Regner, Cheryl Baker, Jim Berridge, and Gerry Schwandt. Missing from the picture are Andy Mitchell, Jason Werner, and former employee Tara Keener.

Our audit effort requires the support of three organizational units: the Office of Professional Practice, the Office of Information Technology, and the Office of Administration.

### **Office of Professional Practice**

The Office of Professional Practice support services include performing quality assurance reviews of audit reports and working papers; editing the audit reports for substance, correctness, and style; and conducting accounting and auditing research to keep staff abreast of ever changing professional standards, pronouncements, and trends. Also, the Office coordinates the National State Auditors Association triennial external quality control review of the OAG, as well as the OAG's participation in the external quality control reviews of other states' audit agencies.

---

---

*... oversees the quality control system of the OAG...*

---

---

The Office of Professional Practice oversees the quality control system of the OAG and provides guidance to audit division administrators, audit managers, and supervisors to improve audit services and reports prior to completion of the audit fieldwork. The Office also provides assistance to professional staff to ensure that all audit reports and working papers meet not only the standards of our profession but also the high quality standards of the OAG.

### **Quality Assurance**

---

---

*... reviews audit reports and working papers to ensure compliance with professional standards...*

---

---

Quality Assurance staff review OAG audit reports and related working papers to ensure compliance with professional standards issued by the Governmental Accounting Standards Board, the Comptroller General of the United States, and the American Institute of Certified Public Accountants, as well as policies and procedures of the OAG. These quality assurance reviews, conducted in conjunction with management's report review and the report editing functions, are a fundamental part of our overall system of quality control. The reviews provide an assessment of audit quality, both on individual audits and on an officewide basis, and identify issues requiring further policy and procedure development. During the course of our audit fieldwork, audit staff frequently consult with Quality Assurance staff on issues related to conducting and reporting on the various types of audits.

### **Audit Report Review**

Well-written audit reports clearly convey the results of our audit effort to the reader. To accomplish this, Audit Report Review edits the audit reports for substance, correctness, and style. The substance portion of the review determines that the report is clear, concise, and conceptually sound and adheres to relevant standards for content and form; the correctness portion of the review ensures the use of proper grammar and consistent terminology; and the style portion of the review focuses on OAG preferences for language and composition.

---

---

*... edits the audit reports for substance, correctness, and style.*

---

---

In addition to the editing function, Audit Report Review staff provide assistance to audit staff regarding report processing, report format and style, and grammar. Also, Audit Report Review staff maintain the OAG Style Manual, which is designed as a practical guide to assist audit staff in writing audit reports.

### **Research and Professional Standards**

Research and Professional Standards provides timely professional and technical assistance on accounting and auditing issues to management and staff, facilitates the development of officewide policies and procedures relating to professional standards and practices, and maintains a professional reference library. We continue to implement new computer-assisted research programs, as they become available, to more efficiently provide assistance to staff. To ensure compliance with applicable professional standards and to increase the effectiveness and efficiency of our audit activities, we processed 10 updates to the OAG Auditor's Manual for the two-year period ended September 30, 2008.

---

---

*... provides timely assistance on accounting and auditing issues ...*

---

---

Research and Professional Standards develops responses to technical discussion memorandums, exposure drafts, and issue papers of various national professional organizations, such as the Governmental Accounting Standards Board, U.S. Government Accountability Office, American Institute of Certified Public Accountants, National State Auditors Association, Federal Accounting Standards Advisory Board, and Government Finance Officers Association. Also, we contribute to the profession by making presentations at conferences and seminars of professional organizations and by participating on their standing committees.

***The OAG network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability.***

---

### **Office of Information Technology**

The Office of Information Technology is responsible for managing our local area network, maintaining our management information system, and providing computer support and software assistance to our staff. Its staff of 10 highly trained professionals help ensure that the OAG continues its standing as a leader in the use of information technology for audit.

### **Local Area Network and Computer Systems Support**

This section maintains the OAG local area network and management information system and provides end-user computing (EUC) support to our audit staff. Our local area network, through its connection to the State of Michigan's Wide Area Network, permits both our central office staff and staff at on-site audit locations to share automated information and to communicate vital information electronically. The OAG network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability. It also provides users with access to our management information system, which contains audit report and project management information. EUC support is provided in the form of hardware and software problem solving, hardware maintenance, software development and user training. The section also ensures that each auditor has computer equipment and the necessary software to assist in the performance of an audit.

In fiscal year 2007-08, we completed the implementation of an updated management information system. This provides us with new software features and enhanced management reporting capabilities to promote an efficient work environment.

Our Internet web site includes complete audit reports, a search function, and a "list-serve" function. Visitors to our Web site have the ability to search for specific audit reports and then download the audit reports. Visitors can also sign up on our "list-serve" to automatically receive a copy of the report summary of all newly released audit reports via e-mail.

We continued to expand the content of the OAG Intranet by adding Web enabled features for employee and audit information.

Our goals for next fiscal year include upgrades to our e-mail and network infrastructure to provide additional capability to audit staff.

### Software Assistance

This section analyzes automated information stored in any electronic format to assist OAG staff during audit fieldwork. We have the ability to extract and analyze any automated information for audit purposes. This analysis includes both mainframe and microcomputer programming to manipulate and analyze automated financial and nonfinancial records (e.g., licensing, college student enrollment, and public assistance).

---

---

***The OAG has the ability to extract and analyze any automated information for audit purposes.***

---

---

In fiscal year 2007-08, we continued our emphasis to develop standard server-based applications in order to analyze automated information for audit purposes along with leveraging the information available in the various State data warehouses. This continues to reduce turnaround time for automated information analysis requests, and it has helped to establish standardized audit processes. Effectiveness and efficiencies also have resulted from our cross-trained and permanently assigned software assistance staff.

Our analysis of automated information has identified weaknesses in agency automated systems and internal control. It has also provided documented support for audit findings contained in our audit reports.

Our goals for next year are to continue to develop standardized automated extraction and analysis procedures to access agency automated information and to continue to expand the use of the various State data warehouses to mine information useful in completing our audits.

### Office of Administration

The Office of Administration provides human resource management; accounting and budgeting; project and security management; computer-assisted graphic support services; audit report production; and officewide printing, purchasing, and clerical support.

### Human Resources

The delivery of human resource services is of prime importance to our organization. We strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management.

#### Recruiting

Because of budget constraints, we had limited campus recruiting activities. During the past two years, we successfully recruited and hired 20 student assistants for limited term appointments and replaced 9 full-time auditors.

#### Staff Development

We place great importance on developing and retaining staff. All staff members are encouraged and provided the opportunity to develop their professional skills. In addition, the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the State Board of Accountancy require members of the profession to annually obtain continuing professional education. For example, *Government Auditing Standards* require that auditors complete at least 80 hours of continuing education every two years. In fiscal years 2006-07 and 2007-08, the OAG provided 12,461 hours of continuing education. Training focused on the revisions and new auditing requirements outlined in Statement on Auditing Standards (SAS) Nos. 104 through 112; forensic accounting and fraud investigation; and leadership and communication skills. The OAG provided technical training that covered various topics, including the State's accounting and payroll systems and Excel and Visio software packages. The OAG also hosted the Midwestern Intergovernmental Audit Forum (MIAF) in fall 2008. By attending MIAF, staff had the opportunity to receive training from local, regional, and national speakers and trainers on the following topics: protection of sensitive data on mobile devices, ethical decision making, information technology security, fraud detection, and creative thinking for auditors.

---

---

*... strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management.*

---

---

---

---

*Professional standards require 80 hours of continuing education every two years.*

---

---

As part of staff development, we actively support auditors seeking professional certification and advanced degrees through our administrative leave policy and our tuition reimbursement program. Of our 122 professional audit staff employed at September 30, 2008, 72 had obtained certification from one or more of the various professional certification programs. The OAG professional audit staff included 69 certified public accountants, 4 certified internal auditors, and 11 certified information systems auditors. We also had 8 staff members who had earned master's degrees, 1 staff member who had a Juris Doctor degree, and 6 staff members who had completed associate's degrees in business controls and security, in addition to their bachelor's degrees.

---

<i>Certified public accountants.....</i>	<i>69</i>
<i>Certified internal auditors .....</i>	<i>4</i>
<i>Certified information systems auditors .....</i>	<i>11</i>
<i>Master's degrees ....</i>	<i>8</i>
<i>Associate's degrees in data processing .....</i>	<i>6</i>

---

During fiscal years 2006-07 and 2007-08, the following OAG staff members became certified public accountants:

- Courtney M. Carroll
- Robin E. Garity

Many OAG auditors are active in professional organizations including: the American Institute of Certified Public Accountants; the Michigan Association of Certified Public Accountants; the Government Finance Officers Association; the Association of Government Accountants; the National Association of State Auditors, Comptrollers, and Treasurers; the National State Auditors Association; the Institute of Internal Auditors; the Midwestern Intergovernmental Audit Forum; the State Association of Accountants, Auditors, and Business Administrators; the National Legislative Program Evaluation Society; and the Information Systems Audit and Control Association. Staff members often participate as officers, board members, and committee members of local, State, and national accounting and auditing organizations.

### **Administrative Information Services**

This section provides accounting and budgeting and project and security management. We continue to face several accounting and budgeting challenges. Like other State departments and agencies, our appropriation was limited, which led to a number of uncertainties as we planned our spending for the year. We were able to address these uncertainties through a great commitment on the part of all

OAG staff involved in preparing, approving, and implementing our accounting and budgeting activities.

Project and security management services include ongoing agency oversight of and security administration for the Michigan Administrative Information Network (MAIN), the Data Collection and Distribution System (DCDS), the Human Resources Management Network (HRMN), the Management Information Database (MIDB), and the MAIN Access Panel (MAP).

### **Office Services**

Office Services is responsible for providing numerous services to all OAG staff. These services include:

- Printing and publishing of OAG audit reports, the Annual Report, the recruiting brochure, and numerous other documents.
- Assisting in the design and preparation of training and conference materials.
- Ordering, receiving, and stocking of office supplies and equipment.
- Arranging for the surplus and salvage of OAG materials, equipment, and furniture.
- Recycling activities.

### **Clerical Support**

The major function of Clerical Support staff is to type and format submitted audit reports for processing and issuance. Staff are also responsible for distributing audit reports, manuals, and letters; operating the telephone switchboard and reception desk; and maintaining various internal records.

In addition, Clerical Support staff process payroll transactions for OAG employees. Staff enter employee time sheets, process biweekly time and attendance reports, and enter time and attendance into DCDS.

The OAG requires that all staff hours be properly accounted for. To assist in this effort, Clerical Support staff enter budget hours and direct hours for all OAG activities. Staff are also responsible for preparing audit report related information for inclusion on our Internet web site.

Clerical Support staff are cross-trained and, because of the local area network, can perform their duties at any of several office work stations. Employee cross-training and automation have enabled us to minimize our staffing needs.

---

---

***Cross-training  
and automation  
have enabled the  
OAG to minimize  
staffing needs.***

---

---

## **Office of the Auditor General Reports and Other Information**

An audit report and its supporting evidence are considered confidential until the report's official release to the Legislature, the general public, and the press. Once a report has been released, it is public information and, as such, is available upon request.

Reports or information about our office can be found on our Internet web site at [<http://audgen.michigan.gov>](http://audgen.michigan.gov) or can be obtained as follows:

- By written request directed to:

Office of the Auditor General  
Victor Center, Sixth Floor  
201 N. Washington Square  
Lansing, Michigan 48913

- By telephone at (517) 334-8050
- By FAX at (517) 334-8079 (please include your name, address, and the specific reports or other desired information in your request).

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

- \* Letter report.
- R Audit required by law.
- N/A Not applicable.

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>AGRICULTURE, DEPARTMENT OF</b>				
791-0100-07	Department of Agriculture - R The audit included an unqualified opinion on the Department of Agriculture's financial schedules. It identified three reportable conditions related to internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 5 programs as major programs and issued 5 unqualified opinions. It identified two reportable conditions related to internal control over major programs. It also identified two instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> . However, it did identify one related reportable condition.	Single	6	0
<b>ATTORNEY GENERAL, DEPARTMENT OF</b>				
111-0100-07	Department of Attorney General - R The audit included an unqualified opinion on the Department of Attorney General's financial schedules. It identified one reportable condition related to internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 2 programs as major programs and issued 2 unqualified opinions. It did not report any findings related to internal control over major programs. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .	Single	0	1
<b>CIVIL RIGHTS, DEPARTMENT OF</b>				
151-0100-07	Department of Civil Rights - R The audit included an unqualified opinion on the Department of Civil Rights' (DCR's) financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 2 programs as major programs and issued 2 unqualified opinions. It did not report any findings related to internal control over major programs. It also did not identify	Single	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DCR was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .			
<b>COMMUNITY COLLEGES</b>				
032-0360-06	Washtenaw Community College The audit concluded that Washtenaw Community College was effective in its efforts to evaluate the quality of its educational programs. However, it noted one reportable condition. The audit also concluded that the College's admissions and monitoring practices were effective in helping students successfully complete their classes and programs. In addition, the audit concluded that the College was efficient in its use of educational program resources. However, it noted three reportable conditions. The audit further concluded that the College's efforts to allocate operating and service costs to auxiliary activities and programs were effective. However, it noted one reportable condition.	Performance	6	0
<b>COMMUNITY HEALTH, DEPARTMENT OF</b>				
391-0100-06	Department of Community Health - R The audit included an unqualified opinion on the Department of Community Health's (DCH's) financial schedules. It identified four reportable conditions related to internal control over financial reporting and considered one finding to be a material weakness. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 9 programs as major programs and reported known questioned costs of \$125.4 million and known and likely questioned costs totaling \$151.7 million. DCH expended a total of \$11.5 billion in federal awards during the two-year period ended September 30, 2005. The audit included 7 unqualified opinions and 2 adverse opinions. It identified nine reportable conditions related to internal control over major programs and considered two findings to be material weaknesses. It also identified nine instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DCH was not in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .	Single	14	1
391-0101-05	Biennial Internal Control Evaluation Process The audit concluded that DCH's efforts were moderately effective in coordinating the development of the biennial internal control evaluation (ICE) process. It identified one material condition and two reportable conditions. The audit also concluded that DCH assessable units' efforts were not effective in evaluating their internal control. It identified one material condition. In addition, the audit concluded that the Office of Audit's efforts were effective in evaluating DCH's biennial ICE process. However, it identified one reportable condition.	Performance	7	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**  
**Audit and Letter Reports Completed**  
**During Fiscal Year 2006-07**

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
391-0305-06	<p>Mt. Pleasant Center, Bureau of Hospitals, Centers, and Forensic Mental Health Services</p> <p>The audit concluded that the Mt. Pleasant Center was moderately effective in its efforts to deliver selected patient care services. It noted two material conditions and three reportable conditions. The audit also concluded that the Center's efforts were moderately effective in safeguarding and efficiently using selected resources. It noted two material conditions and five reportable conditions.</p>	Performance	18	1
391-0702-05	<p>Court Originated Liability Section, Medical Services Administration</p> <p>The audit concluded that the Paternity Unit's efforts to identify pregnancy and birthing-related Medicaid costs for recovery by other governmental agencies were not effective. It noted five material conditions. The audit also concluded that the Casualty Unit's efforts to maximize the recovery of accident-related Medicaid costs from other responsible parties were not effective. It noted two material conditions and four reportable conditions.</p>	Performance	15	0
391-0900-05	<p>Caro Center, Bureau of Hospitals, Centers, and Forensic Mental Health Services</p> <p>The audit concluded that the Caro Center was effective in its efforts to deliver selected patient care services. However, it noted one material condition and one reportable condition. The audit also concluded that the Center's efforts were not effective in safeguarding and efficiently using selected resources. It noted three material conditions and seven reportable conditions. In addition, the audit concluded that the Center's efforts to investigate and resolve complaints about its operations were moderately effective. It noted one reportable condition.</p>	Performance	17	1
<b>CORRECTIONS, DEPARTMENT OF</b>				
471-0202-05	<p>Special Alternative Incarceration Program</p> <p>The audit concluded that the Department of Corrections' efforts to evaluate the benefits of the Special Alternative Incarceration Program (SAI) were moderately effective. It noted one reportable condition. The audit also concluded that SAI was generally in compliance with selected policies and procedures related to safety and security. However, it noted four reportable conditions. In addition, the audit concluded that SAI's food service operation was moderately effective and was efficient and that SAI's warehousing operation was effective and efficient. It noted one reportable condition. The audit further concluded that SAI's eligibility screening process was moderately effective and was efficient and that SAI's intake process was effective and efficient. It noted one reportable condition.</p>	Performance	7	1
471-0223-06	<p>Muskegon Correctional Complex</p> <p>The audit concluded that the Muskegon Correctional Complex was generally in compliance with selected policies and procedures related to safety and security. However, it noted seven reportable conditions. The audit also concluded that the Complex's efforts were effective in establishing and implementing controls for safeguarding prisoner accounts and prisoner store assets. However, it noted two</p>	Performance	15	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	reportable conditions. In addition, the audit concluded that the Complex's food service operations were efficient. However, it noted one reportable condition.			
471-0257-06	<p>Robert Scott Correctional Facility</p> <p>The audit concluded that the Robert Scott Correctional Facility (RSCF) was generally in compliance with selected policies and procedures related to safety and security. However, it noted eleven reportable conditions. The audit also concluded that RSCF's food service operation was efficient. However, it noted one reportable condition. In addition, the audit concluded that RSCF was effective in its efforts to establish and implement controls for safeguarding prisoner assets.</p>	Performance	15	0
<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>				
313-0140-02F	<p>Follow-Up Report on the Office of Professional Preparation Services</p> <p>The follow-up disclosed that the Department of Education had complied with 1 recommendation and had partially complied with 2 recommendations.</p>	Performance	N/A	N/A
313-0200-06	<p>Follow-Up Report on the Michigan Educational Assessment Program</p> <p>The follow-up disclosed that the Department of Education had complied with the 2 recommendations.</p>	Performance	N/A	N/A
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>				
761-0153-06	<p>Land and Water Management Division</p> <p>The audit concluded that the Land and Water Management Division's (LWMD's) permit processing function was effective. However, it noted two reportable conditions. The audit also concluded that LWMD's efforts to resolve complaints regarding land and water resources were moderately effective. It noted two reportable conditions. In addition, the audit concluded that LWMD's efforts in monitoring wetlands were effective. However, it noted one reportable condition. The audit further concluded that LWMD's efforts in monitoring required dam safety inspections and emergency action plans were effective. The audit also concluded that LWMD's efforts in monitoring Great Lakes marina lease requirements were effective. In addition, the audit concluded that LWMD's controls over cash receipts were moderately effective. It noted one reportable condition.</p>	Performance	7	0
761-0590-05	<p>Selected General and Application Controls, Department of Environmental Quality and Department of Information Technology</p> <p>The audit concluded that the Department of Environmental Quality (DEQ) and the Department of Information Technology (DIT) were not effective in their efforts to establish appropriate security and access controls over data and data systems. It noted one material condition and one reportable condition. The audit also concluded that DEQ and DIT were not effective in their efforts to establish appropriate change management controls over data and data systems. It noted one material condition. In addition, the audit concluded that DEQ and DIT were not effective in their efforts to establish appropriate backup and recovery controls over</p>	Performance	5	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>

data and data systems. It noted one reportable condition. The audit further concluded that DEQ and DIT were moderately effective in their efforts to ensure the integrity of data for Navision and LABWORKS. It noted one reportable condition.

**HISTORY, ARTS AND LIBRARIES, DEPARTMENT OF**

251-0100-07	<p>Department of History, Arts and Libraries - R</p> <p>The audit included an unqualified opinion on the Department of History, Arts and Libraries' (HAL's) financial schedules. It identified one reportable condition related to internal control over financial reporting. It also identified one instance of non-compliance or other matters applicable to the financial schedules that is required to be reported under <i>Government Auditing Standards</i> and one related reportable condition. The audit covered 3 programs as major programs and identified known questioned costs of \$1.4 million. HAL expended a total of \$13.6 million in federal awards during the two-year period ended September 30, 2006. The audit included 2 unqualified opinions and 1 adverse opinion. It identified one reportable condition related to internal control over major programs and considered that finding to be a material weakness. It also identified one instance of noncompliance that is required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that HAL was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>	Single	3	2
-------------	--	--------	---	---

**HUMAN SERVICES, DEPARTMENT OF**

431-0100-07	<p>Department of Human Services - R</p> <p>The audit included unqualified opinions on the Department of Human Services' (DHS's) financial schedules and on the financial statements of the Children's Trust Fund. It identified two reportable conditions related to internal control over financial reporting and considered one finding to be a material weakness. It did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify three reportable conditions. The audit covered 14 programs as major programs and identified known questioned costs of \$96.0 million and known and likely questioned costs totaling \$518.6 million. DHS expended a total of \$6.2 billion in federal awards during the two-year period ended September 30, 2006. The audit included 5 unqualified opinions, 6 qualified opinions, and 3 adverse opinions. It identified eighteen reportable conditions related to internal control over major programs and considered eight findings to be material weaknesses. In addition, the audit identified nineteen recommendations related to internal control over major programs that were repeated from our prior report for the two-year period ended September 30, 2004, many of which were also reported in earlier DHS Single Audits. It also identified eighteen instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DHS was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>	Single	7	20
-------------	--	--------	---	----

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
431-0142-06	Michigan State Disbursement Unit, Office of Child Support The audit concluded that the Michigan State Disbursement Unit's (MiSDU's) efforts in monitoring the contract with its service provider were effective. However, it disclosed two reportable conditions. The audit also concluded that MiSDU's efforts were effective in ensuring that the receipt and disbursement of child support remittances were accurate and timely. However, it disclosed one reportable condition. In addition, the audit concluded that MiSDU's efforts were effective in resolving unidentified child support remittances.	Performance	3	0
431-0272-06	Adrian Training School The audit concluded that the Adrian Training School's (ATS's) efforts to ensure the effectiveness of its rehabilitation programs were effective. However, it disclosed one reportable condition. The audit also concluded that ATS's efforts to ensure the safety of its residents were effective.	Performance	1	0
431-0286-05	Community Programming and Support Services Division The audit concluded that the Community Programming and Support Services Division's (CPSSD's) process for approving State-reimbursed county program plans was effective and efficient. However, it disclosed one reportable condition. The audit also concluded that CPSSD's efforts in evaluating the effectiveness and efficiency of State-reimbursed county programs were moderately effective. It disclosed one reportable condition.	Performance	2	0
431-0316-06	Training and Staff Development The audit concluded that DHS was moderately effective and was efficient in administering the training and staff development functions. It identified one material condition and one reportable condition. The audit also concluded that DHS was not effective in evaluating its training programs. It identified one material condition and one reportable condition. In addition, the audit concluded that DHS was effective in ensuring that protective service workers met the bachelor's degree requirement.	Performance	5	0
<b>INFORMATION TECHNOLOGY, DEPARTMENT OF</b>				
084-0555-05	Network Application Server Controls The audit concluded that the Department of Information Technology's (DIT's) efforts to ensure that network application servers have been properly configured in accordance with standards and best practices were not effective. It noted two material conditions. The audit also concluded that DIT's policies and procedures to ensure the security of network application servers were not effective. It noted one material condition. In addition, the audit concluded that DIT's management plans to support the system administration function were not effective. It noted one material condition.	Performance	4	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
084-0580-06	<p>Data Center Operations</p> <p>The audit concluded that DIT was moderately effective in administering the State's hosting centers. It noted one material condition and four reportable conditions. The audit also concluded that DIT's efforts to protect the State's hosting centers from physical and environmental threats were moderately effective. It noted one material condition and one reportable condition. In addition, the audit concluded that DIT's efforts to control access to the State's data exchange gateway were moderately effective. It noted one material condition.</p>	Performance	7	2
084-0581-06	<p>Enterprise Information Security Program</p> <p>The audit concluded that DIT's efforts to fully implement an effective information security framework were not effective. It noted four material conditions. The audit also concluded that DIT's efforts to evaluate and manage the State's exposure to information security risks were moderately effective. It noted three material conditions. In addition, the audit concluded that DIT's efforts to evaluate and enforce compliance with information security policies and procedures were moderately effective. It noted two material conditions.</p>	Performance	11	0
<b>JUDICIAL</b>				
950-0150-07	<p>State-Funded Judicial Operations - R</p> <p>The audit included an unqualified opinion on the State-funded judicial operations' financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 5 programs as major programs and issued 5 unqualified opinions. It identified one reportable condition related to internal control over major programs. It did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>	Single	1	0
950-0215-05	<p>Child Welfare Services, State Court Administrative Office</p> <p>The audit concluded that Child Welfare Services' (CWS's) efforts were moderately effective in identifying barriers that inhibit permanent placement for foster care children. It noted three reportable conditions. The audit also concluded that CWS's efforts were moderately effective in advocating for changes that would expedite permanent placement for children in foster care. It noted one reportable condition. In addition, the audit concluded that CWS's efforts to administer FCRBP were effective. However, it noted two reportable conditions.</p>	Performance	4	2
<b>LABOR AND ECONOMIC GROWTH, DEPARTMENT OF</b>				
641-0100-07	<p>Department of Labor and Economic Growth - R</p> <p>The audit included an unqualified opinion on the Department of Labor and Economic Growth's (DLEG's) financial schedules. It did not report any findings re-</p>	Single	9	1

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	lated to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 11 programs as major programs and reported known questioned costs of \$2.0 million and known and likely questioned costs totaling \$2.0 million. DLEG expended \$905.9 million in federal awards during the two-year period ended September 30, 2006. The audit included 10 unqualified opinions and 1 qualified opinion. It identified ten reportable conditions related to internal control over major programs and considered one finding to be a material weakness. It also identified ten instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DLEG was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .			
641-0350-06	Michigan Career and Technical Institute The audit concluded that the Michigan Career and Technical Institute (MCTI) was effective in evaluating its success in preparing students for and placing students in competitive employment. However, it noted two reportable conditions. The audit also concluded that MCTI was effective in helping students successfully complete their training. However, it noted one reportable condition.	Performance	4	0
641-0425-06L	Utility Consumer Participation Board The audit concluded that the Utility Consumer Participation Board was effective in its efforts to award grants to qualified applicants in accordance with applicable statutes and administrative rules. However, it noted one reportable condition. The audit also concluded that the Board was moderately effective in its efforts to verify that grantees provided equitable representation of residential utility customers' interests at proceedings before the Michigan Public Service Commission. It noted two reportable conditions. In addition, the audit concluded that the Board was generally in compliance with its enabling legislation. However, it noted one reportable condition.	Performance	4	0
64-500-06	Selected Community Colleges' Reporting of Activities Classification Structure Data The audit concluded that the selected community colleges generally did not report the activities classification structure (ACS) data to DLEG in accordance with the provisions of the annual appropriations act for community colleges (Act 154, P.A. 2005), the ACS Manual 2003 for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges, and DLEG's annual instructions. The audit noted five material conditions and seven reportable conditions.	Performance	12	0
641-0591-06	Operating System Controls for the Unemployment Insurance Agency's Mainframe Information Systems, Department of Information Technology and Department of Labor and Economic Growth The audit concluded that the Department of Information Technology's efforts to configure the operating system software to ensure the confidentiality, integrity,	Performance	4	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	and availability of the Unemployment Insurance Agency's mainframe information systems were not effective. It noted four material conditions.			
641-0810-07	Michigan Broadband Development Authority (A Component Unit of the State of Michigan) The audit included an unqualified opinion on the Michigan Broadband Development Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
<b>LEGISLATURE</b>				
900-0140-07	Michigan Legislative Retirement System The audit included an unqualified opinion on the Michigan Legislative Retirement System's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
<b>MANAGEMENT AND BUDGET, DEPARTMENT OF</b>				
071-0010-07	State of Michigan Comprehensive Annual Financial Report, Office of the State Budget, Fiscal Year 2005-06 - R	Financial	8	1
071-0030-07	*Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Section 26), Fiscal Year 2005-06 - R	Financial	N/A	N/A
071-0031-07	*Proportion of Total State Spending from State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Section 30), Fiscal Year 2005-06 - R	Financial	N/A	N/A
071-0100-07	Donation of Federal Surplus Personal Property Program - R The audit included an unqualified opinion on the Department of Management and Budget's schedule of expenditures of federal awards. The audit covered 1 federal program and included 1 unqualified opinion. It identified two reportable conditions related to internal control over the federal program. It also identified two instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.	Program Specific	2	0
071-0305-07	Michigan Exposition and Fairgrounds Authority (A Component Unit of the State of Michigan) The audit included an unqualified opinion on the Michigan Exposition and Fairgrounds Authority's financial statements. It did not report any findings related to	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .			
<b>STATE, DEPARTMENT OF</b>				
231-0100-07	Department of State - R The audit included an unqualified opinion on the Department of State's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 1 program as a major program and issued 1 unqualified opinion. It did not report any findings related to internal control over major programs. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .	Single	0	0
231-0290-05	Releasing Driver and Vehicle Records, Bureau of Driver and Vehicle Records The audit concluded that the Bureau of Driver and Vehicle Records was effective in its efforts to ensure that it released driver and vehicle records as permitted by federal and State requirements. However, it noted one reportable condition. The audit also concluded that the Department was moderately effective in its efforts to monitor the use of driver and vehicle records by authorized customers. It noted one reportable condition.	Performance	3	0
231-0590-03F	Follow-Up Report on Automated Information Systems, Department of State and Department of Information Technology The follow-up disclosed that the Department of State and the Department of Information Technology had generally complied with 1 recommendation and had partially complied with 5 recommendations.	Performance	N/A	N/A
<b>STATE POLICE, MICHIGAN DEPARTMENT OF</b>				
55-101-05	Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards The audit included an unqualified opinion on the Michigan Justice Training Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b>				
591-0100-07	<p>Michigan Department of Transportation</p> <p>The audit included an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 3 programs as major programs and issued 3 unqualified opinions. It identified one reportable condition related to internal control over major programs. It did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that MDOT was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>	Single	1	0
591-0105-06	<p>Use of Transportation-Related Funding</p> <p>The audit determined that the charges to transportation funds were generally appropriate for 3 of 5 selected State agencies for fiscal years 2004-05 and 2003-04. However, it disclosed one reportable condition. The audit also determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. In addition, the audit reported the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information.</p>	Performance	2	0
591-0590-06	<p>Michigan Department of Transportation Architecture Project, User Application and Registration System, Bid Express System, and Construction Related Systems, Michigan Department of Transportation and Department of Information Technology</p> <p>The audit concluded that Michigan Department of Transportation (MDOT) and Department of Information Technology (DIT) security and access controls over selected information systems were not effective. It noted one material condition and five reportable conditions. The audit also concluded that MDOT and DIT were moderately effective in their efforts to ensure the integrity of data for selected information systems. It noted two reportable conditions.</p>	Performance	6	2
<b>TREASURY, DEPARTMENT OF</b>				
271-0230-05	<p>Individual Income Tax Return Processing</p> <p>The audit concluded that the Department of Treasury's use of data available from external sources to identify unreported individual income tax (IIT) and initiate assessments in a timely manner was not effective. It disclosed two material conditions. The audit also concluded that the Department's efforts to ensure that it processed IIT returns in an accurate and timely manner were moderately effective. It noted six reportable conditions.</p>	Performance	11	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
271-0265-06	Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury and Michigan Department of State Police - R The audit included an unqualified opinion on the Commercial Mobile Radio Service Emergency Telephone Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0265-07	Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury and Michigan Department of State Police - R The audit included an unqualified opinion on the Commercial Mobile Radio Service Emergency Telephone Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0283-07	Michigan Education Trust Plan D ( A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0284-07	Michigan Education Trust Plans B and C (A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Education Trust Plans B and C financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0285-07	Michigan Tobacco Settlement Finance Authority (A Blended Component Unit of the State of Michigan) The audit included an unqualified opinion on the Michigan Tobacco Settlement Finance Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0290-02F	Follow-Up Report on the Bureau of Local Government Services The follow-up disclosed that the Bureau of Local Government Services and the Department of Treasury had complied with 7 recommendations, had generally complied with 2 recommendations, had partially complied with 5 recommendations, and had not complied with 5 recommendations. One recommendation was no longer applicable.	Performance	N/A	N/A

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
271-0295-05	<p>Customer Contact Process</p> <p>The audit concluded that the Department of Treasury was moderately effective in performing its single business tax (SBT)/sales, use, and withholding (SUW) business registration functions. It noted one reportable condition. The audit also concluded that the Department was effective in communicating with taxpayers. However, it noted one reportable condition. In addition, the audit concluded that the Department's procedures were effective in maintaining SUW taxpayer accounts and resolving account discrepancies. However, it noted one reportable condition.</p>	Performance	3	0
271-0400-07	<p>Michigan Strategic Fund (A Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Strategic Fund's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit included 1 program as a major program and issued 1 unqualified opinion. It did not report any findings related to internal control over major programs. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>	Single	0	0
271-0405-07	<p>Michigan Economic Development Corporation (A Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Economic Development Corporation's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 1 program as a major program and issued 1 unqualified opinion. It did not report any findings related to internal control over major programs. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>	Single	0	0
271-0410-07	<p>21st Century Jobs Trust Fund Programs, Michigan Strategic Fund and Strategic Economic Investment and Commercialization Board</p> <p>The audit concluded that the Michigan Strategic Fund's (MSF's) processes for awarding grants, loans, and contracts and making investments for economic development were effective. The audit also concluded that the Strategic Economic Investment and Commercialization Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State were effective. In addition, the audit reported that MSF had not begun its evaluation of economic development outcome data as of June 30, 2007. As a result, the audit could not conclude on the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st Century Jobs Trust Fund programs.</p>	Performance	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2006-07

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
271-0900-06	<p>Michigan Gaming Control Board</p> <p>The audit concluded that the Michigan Gaming Control Board's (MGCB's) regulatory and enforcement activities were moderately effective for the three commercial casinos in Detroit. It noted three reportable conditions. The audit also concluded that MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments were effective. However, it noted two reportable conditions.</p>	Performance	6	0
<b>UNIVERSITIES</b>				
331-0305-05	<p>Tuition and Other Financial Obligations Assessed to Students at Michigan Public Universities</p> <p>The audit concluded that, collectively, Michigan public universities were effective in publicly disclosing all tuition and other financial obligations assessed to their students. The audit also concluded that Michigan public universities were in compliance with tuition restraint requirements prescribed by Section 436, Act 352, P.A. 2004. However, the report does include a related observation regarding student fees. In addition, the audit analyzed and provided data regarding Michigan public universities' establishment and assessment of tuition and other financial obligations assessed to their students, noting one reportable condition and four observations.</p>	Performance	2	0
			<u>257</u>	<u>35</u>

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

\* Letter report.  
R Audit required by law.  
N/A Not applicable.

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>AGRICULTURE, DEPARTMENT OF</b>				
791-0111-06	Motor Fuel Quality and Quantity Inspections and Enforcement Efforts, Laboratory Division The audit concluded that the Division's efforts were moderately effective in promoting compliance with the motor fuel quality and quantity laws. It noted one material condition and three reportable conditions.	Performance	4	0
<b>CIVIL SERVICE, DEPARTMENT OF</b>				
191-0596-03F	Follow-Up Report on Human Resources Management Network (HRMN) Self-Service The follow-up concluded that the Civil Service Commission, in conjunction with the Department of Information Technology, had partially complied with the three recommendations.	Performance	N/A	N/A
<b>COMMUNITY HEALTH, DEPARTMENT OF</b>				
391-0704-05	Program Investigation Section Processes to Identify Improper Payments, Bureau of Medicaid Financial Management and Administrative Services, Medical Services Administration The audit concluded that the Section's efforts to identify improper payments to Medicaid providers were moderately effective. It noted one material condition and five reportable conditions.	Performance	6	0
<b>CORRECTIONS, DEPARTMENT OF</b>				
471-0100-08	Department of Corrections - R The audit included an unqualified opinion on the Department of Corrections' financial schedules. The audit identified significant deficiencies in internal control over financial reporting. However, it did not consider these significant deficiencies to be material weaknesses. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . However, it did identify other noncompliance. The audit covered 6 programs as major programs and issued 6 unqualified opinions. The audit identified significant deficiencies in internal control over federal program compliance. However, it did not consider these significant deficiencies to be material weaknesses. The audit identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular	Single	4	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .			
471-0237-07	Parnall Correctional Facility The audit concluded that the Facility's efforts to comply with selected policies and procedures related to safety and security were moderately effective. It noted ten reportable conditions. The audit also concluded that the Facility's efforts to comply with selected policies and procedures related to food service operations were moderately effective. It noted one reportable condition.	Performance	11	0
471-0241-07	Huron Valley Complex The audit concluded that the Huron Valley Complex's (HVC's) efforts to comply with selected policies and procedures related to safety and security were not effective. It noted one material condition and seven reportable conditions. The audit also concluded that the Department of Corrections' efforts to control the inventory and distribution of medication at HVC were effective. In addition, the audit concluded that HVC's efforts to comply with selected policies and procedures related to food service were effective. However, it noted one reportable condition. The audit further concluded that HVC's efforts to ensure that the prisoner store inventory was appropriately accounted for and safeguarded were moderately effective. It noted one reportable condition. The audit could not determine the efficiency of mailroom operations because of the lack of data necessary to assess efficiency. It noted one reportable condition.	Performance	15	0
471-0300-06	Prisoner Medical and Dental Services The audit concluded that the Department of Corrections' (DOC's) efforts to comply with selected policies and procedures related to the delivery of medical services were not effective. The audit also concluded that DOC's efforts to comply with selected policies and procedures related to the delivery of dental services were effective. It noted one material condition and one reportable condition. In addition, the audit concluded that DOC's utilization of the electronic prisoner medical record system was moderately effective. It noted one material condition. The audit further concluded that DOC's efforts to manage prisoner medications were moderately effective. It noted three reportable conditions. The audit also concluded that DOC's efforts to manage health care staffing were moderately effective. It noted one material condition. In addition, the audit concluded that DOC's efforts to monitor the managed health care and pharmaceutical	Performance	9	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	contracts were moderately effective. It noted one reportable condition.			
471-0592-07	<p>General Controls of the Offender Management Network Information System</p> <p>The audit concluded that the Department of Corrections (DOC) and the Michigan Department of Information Technology's (MDIT's) controls to prevent and detect unauthorized access to the Offender Management Network Information System (OMNI) application, data, and operating system files were not effective. It noted one material condition and two reportable conditions. The audit also concluded that MDIT's change controls over OMNI program files, database software, and operating system software were not effective. It noted one material condition. In addition, the audit concluded that MDIT's backup and recovery procedures to ensure the continued service of OMNI were moderately effective. It noted one reportable condition.</p>	Performance	5	1
471-0618-06L	<p>Parole Supervision and Parole Hearing Process</p> <p>The audit concluded that the Department of Corrections' (DOC's) efforts to comply with statutes and internal policies and procedures related to parole supervision were moderately effective. It noted four reportable conditions. The audit also concluded that DOC's efforts to comply with its policies and procedures related to processing parole violators were effective. In addition, the audit concluded that DOC's efforts to ensure the integrity of parole data within the Offender Management Network Information System (OMNI) were moderately effective. It noted one reportable condition.</p>	Performance	5	0
471-0621-07L	<p>Prisoner Food Services</p> <p>The audit concluded that the Department of Corrections' (DOC's) efforts to manage food services costs were moderately effective. It noted two material conditions and three reportable conditions.</p>	Performance	5	0
<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>				
313-0100-08	<p>Michigan Department of Education - R</p> <p>The audit included unqualified opinions on the Michigan Department of Education's (MDE's) financial schedules and on the School Aid Fund's financial statements. The audit identified significant deficiencies in internal control over financial reporting and considered one finding to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 15 programs as major programs and included 15</p>	Single	9	7

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	<p>unqualified opinions. The audit identified significant deficiencies related to internal control over major programs. However, it did not consider these significant deficiencies to be material weaknesses. It did identify instances of noncompliance that are required to be reported in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that MDE was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>			
313-0203-06	<p>School Report Card Program            The audit concluded that the Michigan Department of Education (MDE) was moderately effective in its efforts to ensure that accurate and timely State and School Report Card data and adequate yearly progress (AYP) status are reported to schools and to the public. It noted four material conditions and seven reportable conditions. The audit also concluded that MDE was not effective in its monitoring of school districts' annual reports to ensure compliance with State and federal reporting requirements. It noted one material condition.</p>	Performance	14	0
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>				
761-0100-08	<p>Department of Environmental Quality - R            The audit included unqualified opinions on the Department of Environmental Quality's financial statements and financial schedules. The audit did not report any findings related to internal control over financial reporting. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements and/or financial schedules that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 6 programs as major programs and issued 4 unqualified opinions and 2 qualified opinions. The audit did identify significant deficiencies in internal control over federal program compliance and considered five findings to contain material weaknesses. The audit did identify instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>	Single	4	4
761-0143-07	<p>Fee Adequacy Within the Air Quality Division            The audit concluded that the Air Quality Division's (AQD's) process to properly allocate expenditures to the Renewable Operating Permit (ROP) Program was effective. The audit also concluded that the statutory fees (including unexpended fees carried forward from prior years) for the ROP Program</p>	Performance	1	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	<p>were sufficient to meet the minimum requirements of the Clean Air Act as specified in Section 324.5522(3) of the <i>Michigan Compiled Laws</i>. However, the audit noted one reportable condition.</p>			
761-0175-07	<p>Laboratory Data Quality Assurance            The audit concluded that the Department of Environmental Quality (DEQ) was effective in its efforts to ensure the accuracy of analytical data generated by its Environmental Laboratory. However, the audit could not determine whether the operating costs of DEQ's Environmental Laboratory were reasonable relative to the operating costs of comparable private laboratories that met the requirements for successful participation in the laboratory data quality recognition program. In addition, the audit could not determine whether the statutory fees for the program were adequate to meet the minimum requirements of the enabling legislation. It noted one reportable condition.</p>	Performance	1	0
<b>HUMAN SERVICES, DEPARTMENT OF</b>				
431-0110-05	<p>Human Service Contracting            The audit concluded that the Department of Human Services' (DHS's) process for developing human service contracts was moderately effective. It noted two material conditions and three reportable conditions. The audit also concluded that DHS's process for selecting human service contractors was moderately effective. It noted one material condition. It also noted one reportable condition. In addition, the audit concluded that DHS's efforts to monitor and evaluate human service contractors were not effective. It noted one material condition and two effectively monitoring reportable conditions.</p>	Performance	11	0
431-0285-05	<p>Client Eligibility Oversight, Error Identification, and Error Prevention Processes for Selected Public Assistance Programs            The audit concluded that the Department of Human Services (DHS) was moderately effective in its oversight of the client eligibility determination processes at local offices for the Family Independence Program (FIP), Food Assistance Program (FAP), Child Development and Care (CDC) Program, and Medical Assistance (MA) Program. It noted five reportable conditions. The audit also concluded that DHS was not effective in its efforts to implement error identification and correction processes regarding client eligibility determination for FIP, FAP, the CDC Program, and the MA Program. It noted one material condition and three reportable conditions. In addition, the audit concluded that DHS was moderately effective in its efforts to implement and sustain improvement initiatives for reducing client eligibility determination errors for FIP, FAP, the CDC Program, and the MA Program. The audit identified one reportable condition.</p>	Performance	11	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
431-0299-05	Suitability of Child Development and Care Program Providers The audit concluded that Department of Human Services (DHS) efforts were not effective in detecting unsuitable individuals and preventing them from providing child day-care services. The audit identified nine material conditions and one reportable condition. DHS authorized 116,585 child day-care providers to care for 273,364 children. The audit identified approximately 1,900 unsuitable child day-care providers. As a result, DHS potentially placed approximately 4,600 children at risk.	Performance	13	1
431-0300-05	Child Development and Care Program Payments The audit concluded that the Department of Human Services' (DHS's) efforts were not effective to help ensure the proper use of Child Development and Care (CDC) Program resources. The audit identified seven material conditions and five reportable conditions. The audit estimated that DHS made potential improper and, in some cases, potentially fraudulent CDC Program payments of \$231 million as a result of the material conditions. The audit also identified \$1 million in improper payments related to the reportable conditions.	Performance	13	0
431-0320-00F	Follow-Up Report on the Food Assistance Program The follow-up concluded that the Department of Human Services had complied with 1 recommendation, had partially complied with 1 recommendation, and had not complied with 2 recommendations.	Performance	N/A	N/A
431-0591-07	* Bridges Integrated Automated Eligibility Determination System	Preliminary Review	N/A	N/A
431-1100-07	Michigan Early Childhood Investment Corporation (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on Michigan Early Childhood Investment Corporation's (ECIC's) financial statements. The audit identified one material weakness in ECIC's internal control over financial reporting. The audit identified internal control weaknesses such as insufficient knowledge related to governmental financial accounting and reporting; missing documents to support expenditures, assets, and liabilities; and insufficient grant management oversight procedures. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	1	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>INFORMATION TECHNOLOGY, MICHIGAN DEPARTMENT OF</b>				
084-0561-07	*Windows Server Security	Performance	N/A	N/A
084-0595-07	Information Technology Investment Management Practices The audit concluded that Michigan Department of Information Technology's (MDIT's) efforts to establish the management structure, policies, and procedures needed to ensure that the State invests in information technology (IT) projects that best support the State's strategic goals were moderately effective. The audit noted two reportable conditions. The audit also concluded that MDIT's efforts to implement key monitoring practices to ensure that the State's investments in IT projects meet cost, schedule, and performance expectations were moderately effective. It noted one reportable condition.	Performance	3	0
<b>LABOR AND ECONOMIC GROWTH, DEPARTMENT OF</b>				
641-0144-07	Consumer Finance Activities, Office of Financial and Insurance Regulation The audit concluded that the Office of Financial and Insurance Regulation's (OFIR's) efforts to identify predatory lending practices were moderately effective; however, OFIR's efforts to reduce predatory lending practices were not effective. The audit noted one material condition. The audit also concluded that OFIR was effective and efficient in its efforts to resolve consumer finance complaints. However, it noted one reportable condition. In addition, the audit concluded that OFIR was effective in its efforts to ensure that licensees and registrants are in compliance with statutory requirements. The audit further concluded that OFIR's efforts to conduct consumer finance examinations and investigations were moderately effective. It noted one material condition and one reportable condition. The audit concluded that OFIR was effective in its efforts to initiate enforcement actions against consumer finance entities.	Performance	4	0
<b>LEGISLATURE</b>				
900-0115-08	*Response to Legislative Request Regarding the Operations of the Legislative Service Bureau	Performance	N/A	N/A

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>MANAGEMENT AND BUDGET, DEPARTMENT OF</b>				
071-0010-08	State of Michigan Comprehensive Annual Financial Report, Office of the State Budget, Fiscal Year 2006-07 - R	Financial	7	1
071-0030-08	*Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Section 26), Fiscal Year 2006-07 - R	Financial	N/A	N/A
071-0031-08	*Review of Proportion of Total State Spending from State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Section 30), Fiscal Year 2006-07 - R	Financial	N/A	N/A
071-0305-08	Michigan Exposition and Fairgrounds Authority - R The audit included an unqualified opinion on the Michigan Exposition and Fairgrounds Authority's financial statements. The audit identified two significant deficiencies in internal control over financial reporting. However, it did not consider these significant deficiencies to be material weaknesses. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	2	0
<b>MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF</b>				
511-0100-08	Department of Military and Veterans Affairs - R The audit included an unqualified opinion on the Department of Military and Veterans Affairs financial schedules. The audit identified significant deficiencies in internal control over financial reporting. However, it did not consider these significant deficiencies to be material weaknesses. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . However, it did identify other instances of noncompliance. The audit covered 2 programs as major programs and reported known questioned costs of \$24,186 and known and likely questioned costs totaling \$1,124,567. The Department expended a total of \$168.5 million in federal awards during the two-year period ended September 30, 2007. The audit included 1 unqualified opinion and 1 qualified opinion. The audit identified significant deficiencies in internal control over federal program compliance and considered one finding to be a material weakness. The audit identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. We determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .	Single	7	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
<b>STATE, DEPARTMENT OF</b>				
231-0234-06	Bureau of Information Security The audit concluded that the Bureau of Information Security's (BIS's) efforts in investigating potential violations of laws, rules, and regulations pertaining to Department of State records and programs were moderately effective. The audit identified two reportable conditions. The audit also concluded that BIS was effective in auditing programs and operations that are intended to safeguard Department of State records and assets. However, it noted one reportable condition. In addition, the audit concluded that BIS's administration of the International Registration Plan (IRP) audits was moderately effective. It noted three reportable conditions.	Performance	7	0
<b>STATE POLICE, MICHIGAN DEPARTMENT OF</b>				
551-0100-08	Michigan Department of State Police - R The audit included an unqualified opinion on the Michigan Department of State Police's financial schedules. The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider this significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . However, it did identify other instances of noncompliance. The audit covered 8 programs as major programs and issued 8 unqualified opinions. The audit identified a significant deficiency in internal control over federal program compliance. However, it did not consider this significant deficiency to be a material weakness. The audit identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .	Single	2	1
551-0101-07	Michigan Justice Training Fund - R The audit included an unqualified opinion on the Michigan Justice Training Fund's financial schedules. The audit did not report any findings related to internal control over financial reporting. The audit also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
551-0144-06	Commercial Vehicle Enforcement The audit concluded that the Commercial Vehicle Enforcement's (CVE's) efforts were effective in conducting	Performance	3	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

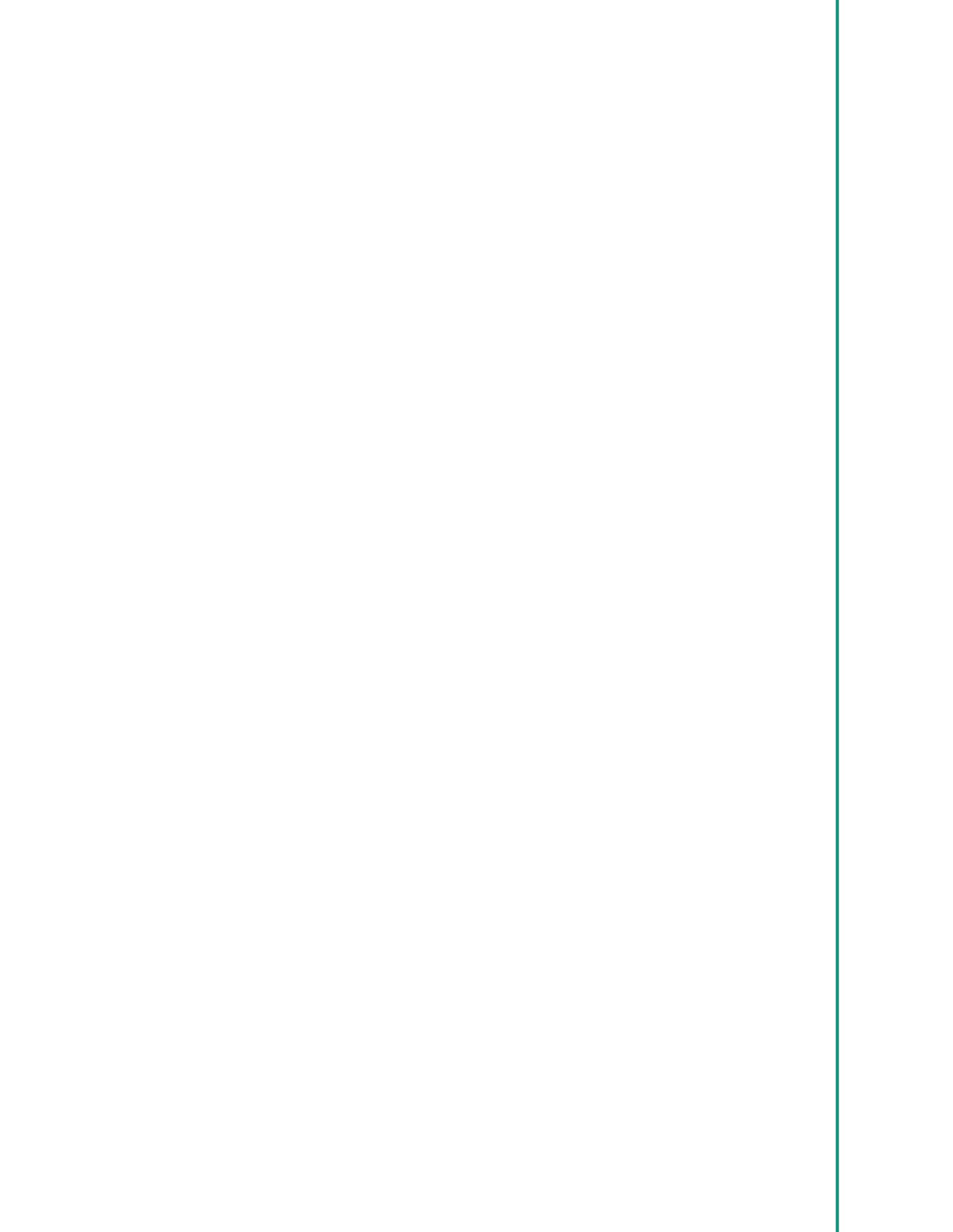
<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	commercial motor vehicle (CMV) carrier inspections, compliance reviews, and safety audits in accordance with Federal Motor Carrier Safety Administration regulations. The audit could not determine the effectiveness of CVE's efforts in impacting CMV compliance with Michigan CMV weight limits primarily because of the lack of available data from which to assess the impact of CVE's efforts. The audit identified three reportable conditions.			
<b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b>				
591-0105-08	Use of Transportation-Related Funding The audit concluded that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, the audit noted one reportable condition. The audit also concluded that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. The audit did not identify any reportable conditions.	Performance	0	2
591-0135-06	Economic Development Fund The audit concluded that the Economic Development Fund's administrative controls to ensure that funds are distributed to local units of government for highway, road, and street projects that support economic growth were moderately effective. The audit identified five reportable conditions. The audit also concluded that Transportation Economic Development System (TEDS) controls to ensure accurate, complete, and secure information used in evaluating and processing project grant applications were moderately effective. It noted two reportable conditions.	Performance	3	4
<b>TREASURY, DEPARTMENT OF</b>				
271-0153-07	Collection of Delinquent State Taxes The audit concluded that the Department's efforts were effective in pursuing methods of collecting identified delinquent State taxes. However, the audit identified two reportable conditions.	Performance	3	0
271-0220-07	Severance and Motor Carrier Fuel Tax Collections The audit concluded that the Department's efforts in pursuing opportunities to detect underpayment or nonpayment of severance taxes were not effective. The audit also concluded that the Department's efforts in pursuing opportunities to detect underpayment or nonpayment of motor carrier fuel taxes were effective. It noted one material condition and one reportable condition.	Performance	3	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
271-0283-08	Michigan Education Trust Plan D (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. The audit did not report any findings related to internal control over financial reporting. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0284-08	Michigan Education Trust Plans B and C (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Education Trust Plans B and C financial statements. The audit did not report any findings related to internal control over financial reporting. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0285-08	Michigan Tobacco Settlement Finance Authority (A Blended Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Tobacco Settlement Finance Authority's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0401-08	Michigan Strategic Fund (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on Michigan Strategic Fund's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0406-08	Michigan Economic Development Corporation (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Economic Development Corporation's financial statements. The audit identified one significant deficiency in internal control over financial reporting. However, it did not consider this significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are	Financial	1	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2007-08

<u>Project Number</u>	<u>Report Title</u>	<u>Project Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
	required to be reported under <i>Government Auditing Standards</i> .			
	<b>UNIVERSITIES AND COLLEGES</b>			
032-0617-07	Lansing Community College The audit concluded that the College's controls over purchasing cards and reimbursable purchases were moderately effective in safeguarding assets and minimizing purchasing costs. The audit noted three reportable conditions. The audit also concluded that the College's process for administering contracts was moderately effective. It noted one reportable condition. In addition, the audit concluded that the College's efforts were effective in establishing and complying with policies and procedures for hiring, promoting, and compensating personnel. However, it noted one reportable condition.	Performance	5	0
331-0300-07	State Universities' Reporting of Selected Higher Education Institutional Data Inventory (HEIDI) Data - R The audit concluded that the State universities generally reported selected HEIDI data as required. The audit noted one material condition related to including ineligible student credit hours for distance learning courses in its report to the Department of Management and Budget. It also identified two reportable conditions related to Wayne State University submitting its HEIDI data three months late and the Department of Management and Budget's HEIDI reporting methodology reporting student credit hours for Michigan's 15 public universities based on a specific date rather than on completed student credit hours.	Performance	3	1
			<u>195</u>	<u>22</u>





OFFICE OF THE  
AUDITOR GENERAL

201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
TEL 517.334.8050  
FAX 517.334.8079

<http://audgen.michigan.gov>