



*2010*

2010 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.

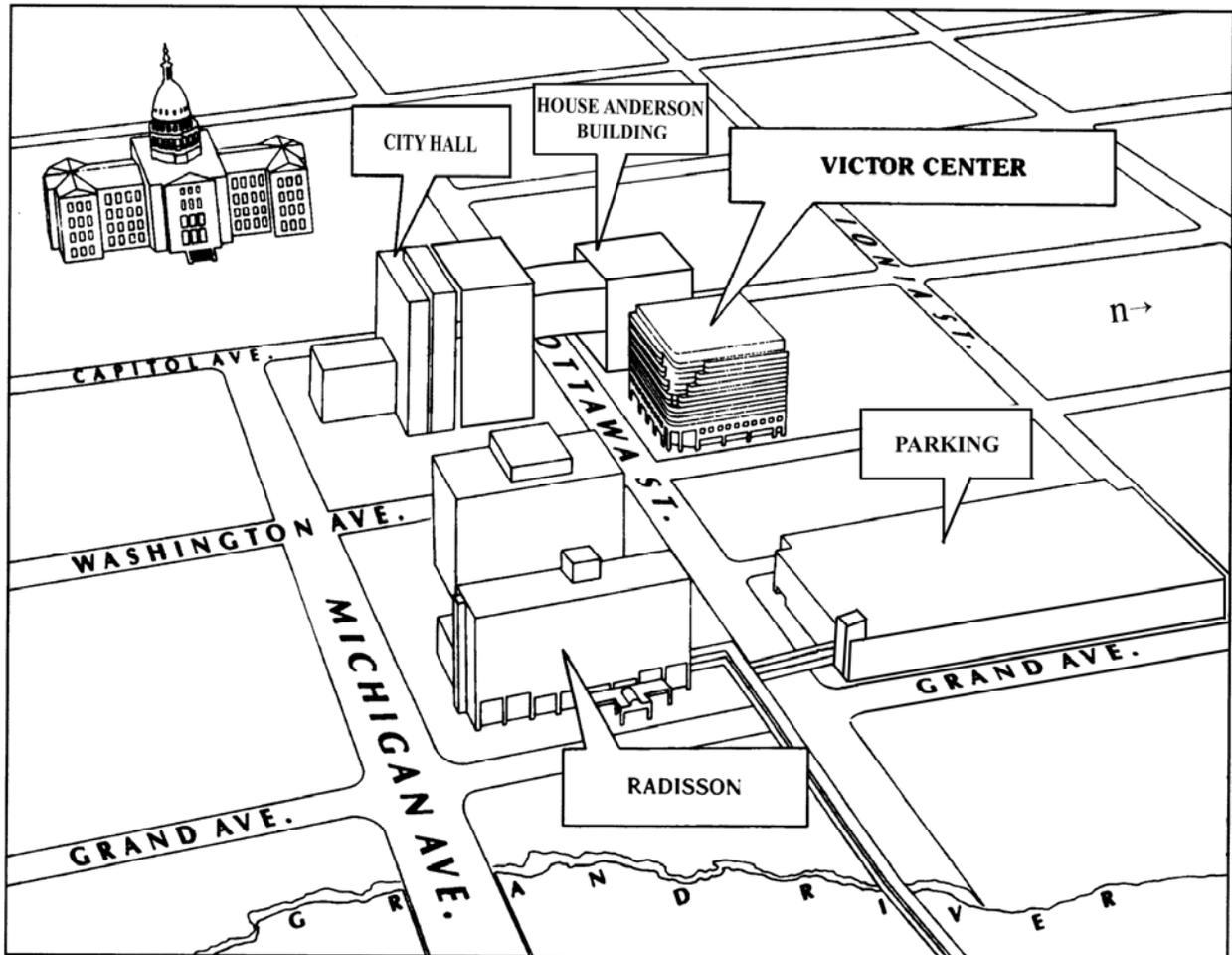
*- Article IV, Section 53 of the  
Michigan Constitution*

Directory  
(As of September 30, 2010)

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

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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

January 28, 2011

The Honorable Rick Snyder, Governor of Michigan  
The Honorable Randy Richardville, Senate Majority Leader  
The Honorable Jase Bolger, Speaker of the House  
The Honorable Gretchen E. Whitmer, Senate Minority Leader  
The Honorable Richard E. Hammel, House Minority Leader  
and  
Members of the 96th 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, 2009 and September 30, 2010 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

October 9, 2009

Mr. Thomas H. McTavish, CPA  
Office of The Auditor General  
201 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, 2008 through September 30, 2009. 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. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. 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, 2008 through September 30, 2009 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Team Leader  
National State Auditors Association  
External Peer Review Team

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 99 audits during fiscal years 2008-09 and 2009-10 and contracted for 6 additional audits during each fiscal year. Our audit reports contained 488 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 2008-09 and 2009-10, our audits identified potential savings to the State of over \$85 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 35% of the Bureau's direct audit hours were used for performance audits during fiscal years 2008-09 and 2009-10. 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 Health Insurance Cost Avoidance and Recovery Section (HICARS), Department of Community Health, we identified 10 audit findings, including 6 that were classified as material conditions. The audit report disclosed that HICARS did not effectively administer a vendor contract for

various third party liability-related services and medical support enforcement services. As a result, HICARS paid the vendor \$5.5 million for services that were the financial responsibility of the Department of Human Services' Office of Child Support, contributed toward the loss of \$880,000 in matching federal funds, significantly overpaid the vendor, and missed an opportunity for other Medicaid cost savings.

- In our audit of the Michigan Tax Tribunal, Department of Energy, Labor & Economic Growth, we determined that the Tribunal had not established a process to ensure that it resolved tax appeals in an efficient and timely manner. As a result, the Tribunal's number of backlogged and pending appeals increased by 72%, from 14,824 in fiscal year 2005-06 to 25,451 in fiscal year 2007-08, which contributed to the significant delays in resolving taxpayers' appeals.
- In our audit of Selected Personnel and Other Administrative Costs, Department of Corrections (DOC), we determined that DOC needs to improve its administration of custody officer staffing. Also, DOC needs to pursue additional cost saving measures through future contract negotiations and review of its organizational structure. Pursuit of these additional cost savings could result in potential savings of as much as \$12.8 million.
- In our audit of the Statewide Electronic Central Registry, Department of Human Services (DHS), we identified 9 audit findings, including 8 that were classified as material conditions. The audit report disclosed that DHS had not established effective internal control to help ensure that it always added the substantiated perpetrators of child abuse and/or child neglect to the Central Registry that DHS identified during Children's Protective Services investigations.

#### 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, 2008 and September 30, 2009. These audits, which were conducted simultaneously with the Statewide year-end closing process, resulted in 36 recommended audit adjustments of \$497.6 million during fiscal years 2007-08 and 2008-09. Internal control weaknesses reported included:

- DCH did not have sufficient controls in place to ensure that all Medicaid eligibility determinations for providers and beneficiaries were properly supported by documentation.

- 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 did not transfer the proper amount of Michigan Business Tax (MBT) revenue from the General Fund to the School Aid Fund.

### Single Audits

The Single Audit Act requires state and local governments receiving \$500,000 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 41% of our direct audit hours were used for Single Audits in fiscal years 2008-09 and 2009-10.

In fiscal years 2008-09 and 2009-10, we conducted 19 Single Audits and reported total net questioned costs of \$767.5 million. Significant findings are summarized by department starting on page 27 of this report.

### **Human Resources**

During fiscal year 2009-10, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 120-member professional audit staff included 67 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.

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**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. Aplin .....	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 Zwiegles, 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.

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

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## **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 annual expenses of approximately \$55 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.

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***... to assist the Legislature in its oversight of more than 100 individual State funds and annual expenses of approximately \$55 billion.***

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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 information systems 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.

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

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### **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](http://audgen.michigan.gov)>.

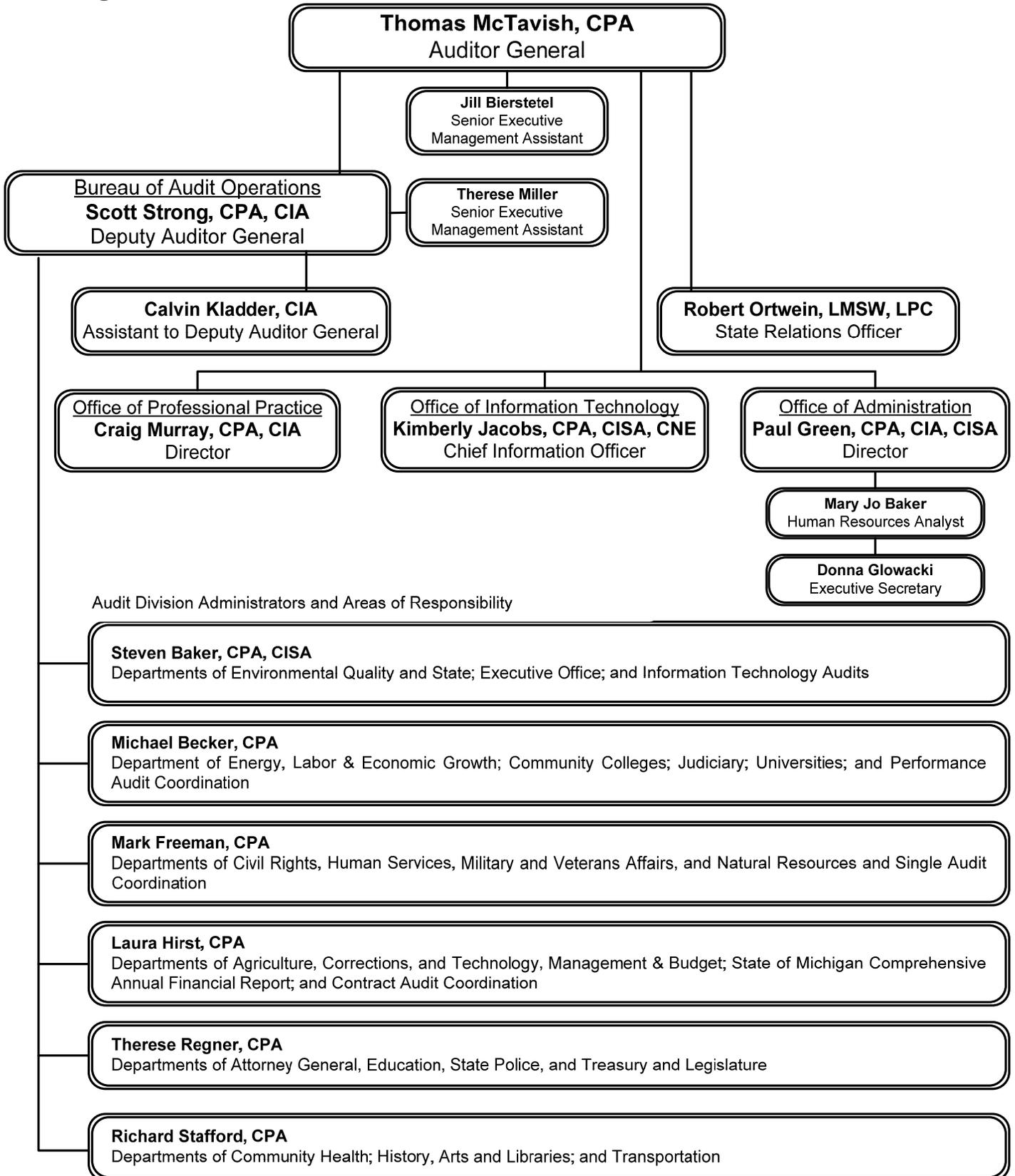
Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal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

*Mission and Overview*  
*(As of September 30, 2010)*

**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 the 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

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. Mazure, 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.  
Duane L. Smiley, C.P.A.  
Jeffrey L. Zemke

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*Mission and Overview*  
*(As of September 30, 2010)*

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Audit Supervisors

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.  
Carri A. Simon, C.P.A.  
Silhouette Todd, C.P.A.  
Michael J. Ventura, C.P.A.  
Mary Kay Walker

Senior Auditors

Ryan D. Austin  
Kevin D. Bashore  
James A. Berridge  
Kelly L. Blessing  
Brian T. Buckner  
Patricia A. Chooi, C.P.A.  
Aaron S. David  
Leah M. Decker  
Michael J. Foerster  
Julius Hampton Jr.  
Shawna M. Hessling  
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  
Gregory J. Schroll, C.P.A.  
Julie L. Trierweiler, C.P.A.  
Laura M. Ventura  
Lori M. Wackerle, C.P.A.  
Rod A. Wlock

Staff Auditors

Jessica C. Armstrong  
Kevin C. Baker, C.P.A.  
Kayla M. Bengel  
Angela M. Brown-Schafer  
Courtney M. Carroll, C.P.A.  
Shannon A. Comer  
Sara A. Crawford  
Diane L. DeLuca, C.P.A.  
Bethany M. Doyle  
Adam D. Feldpausch  
Caitlin J. Feldpausch  
Jill E. Gard  
Robin E. Garity, C.P.A.  
Lisa S. Harral, C.P.A.

Christina J. Ingraham  
Brent A. Johnson  
Lisa R. Kreiter  
Bradley E. LaBram  
Brandon M. McAndrew  
Ann W. McHenry, C.P.A.  
Dennis M. McMillan, C.P.A.  
Steven J. Meyer, C.P.A.  
Rebecca J. Murray, C.P.A.  
Michele L. Novak  
Christopher C. Oosterhoff  
Pamela J. Platter  
Francis W. Thelen  
Audra C. Turner, C.P.A.

**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

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.  
Pamela M. Huffman, C.P.A.  
Elizabeth A. Torres

Information Systems Network and Computer Support

Jeffrey J. Mikula, C.N.A., Supervisor  
Gabriele E. Brazee  
Patrick D. Keeler, C.N.A., C.X.E.

Thomas D. Mason, C.N.A.  
Jason M. Michels, C.N.A.

**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  
Donna J. Glowacki, Executive Secretary

Office Services

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

Administrative Information Services

Stephanie S. Roach  
Dennis J. Strzalkowski

Clerical Support

Allison M. Fandel  
Theresa M. Fedewa  
Amanda A. Feldpausch  
Abbie R. Keilen  
Jarita E. Qawwee  
D'Andrea L. Vermeesch

## Types of Audits and Services Performed by the OAG

### Financial Audits

- Financial 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.

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*Various types  
of audits  
complement  
each other.*

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### 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 program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability. 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

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

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### External Quality Control Review

A six-person National State Auditors Association external quality control review (peer review) team visited our office in October 2009 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, 2008 through September 30, 2009. 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 eighth consecutive "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.

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***Independence standards are followed.***

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## Value of OAG Reports

### To the Legislature

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

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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 2008-09 and 2009-10, our audits identified potential savings to the State of over \$85 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

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

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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, e-mail notifications 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).

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

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On the official release date, e-mail notifications are also sent to the following:

- All legislators.
- House and Senate Fiscal Agencies.
- Office of Financial Management, Department of Technology, Management & Budget.
- 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 and the OAG responds to media inquiries relative to issued reports.

### **OAG Contact With the Legislature**

The audit report is the formal written contact that the OAG has with the Legislature. Upon request, the OAG 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.

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

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Periodically, the briefings result in OAG staff testifying at related hearings. Also, the Auditor General or his designee testifies on audit-related activities, as requested by the Legislature.

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

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

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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 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.

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***Audited agencies must develop a plan to address the audit recommendations within 60 days after release of the audit report.***

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Audited agencies must develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

Each plan must indicate (1) the audit recommendations the agency complied with, (2) the audit recommendations the agency agrees with and will comply with, and (3) the audit recommendations the agency disagrees with.

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 Energy, Labor & 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.

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

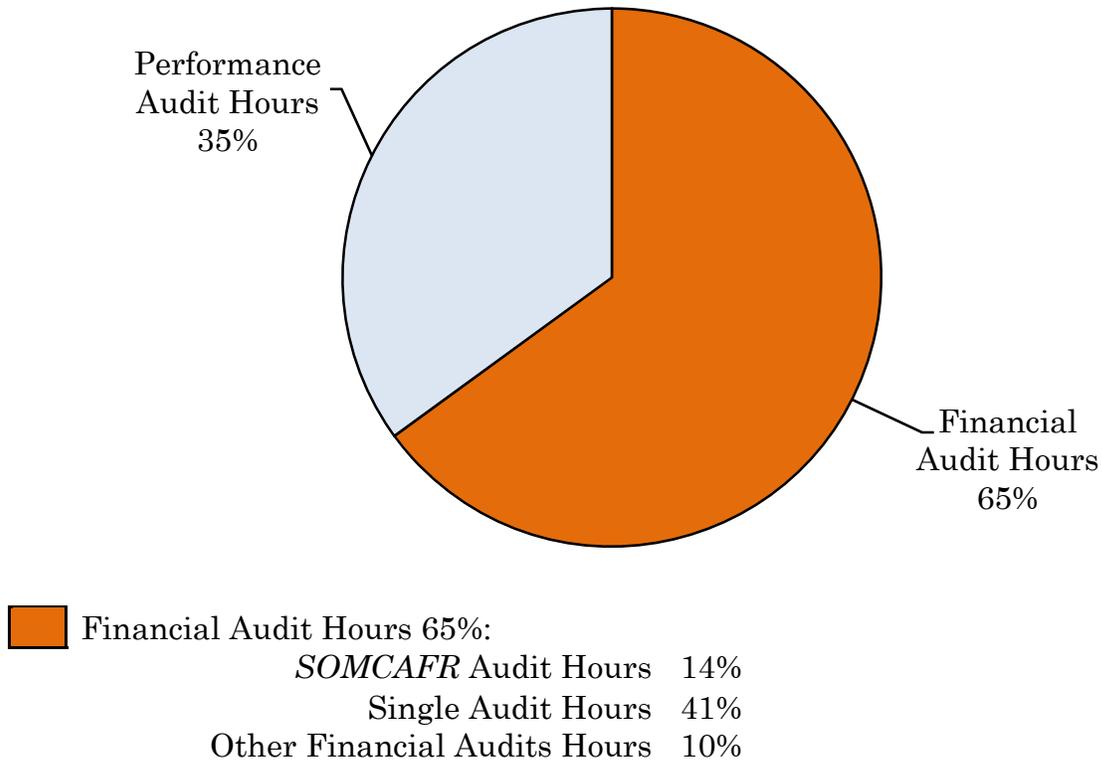
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The Bureau of Audit Operations is responsible for financial and performance audits of all State government operations. The Bureau develops an annual audit plan in which audits are scheduled in accordance with a risk-based assessment. The Bureau conducts 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 99 audits during fiscal years 2008-09 and 2009-10 (see listings starting on page 49). In addition, in each fiscal year, the Bureau contracted with public accounting firms for 6 financial audits, typically annual audits of some State authorities.

The following chart shows the distribution of direct audit hours used for the different types of audits in fiscal years 2008-09 and 2009-10:

**DISTRIBUTION OF DIRECT AUDIT HOURS**  
**FISCAL YEARS 2008-09 AND 2009-10**



## **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 35% of the Bureau's direct audit hours were used for performance audits in fiscal years 2008-09 and 2009-10.

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

### Assistance to High Priority Schools, Michigan Department of Education (MDE) (Fiscal Year 2009-10)

MDE did not sufficiently evaluate the impact of its support initiatives provided to high priority schools. In addition, MDE did not modify support initiatives that were not having a positive effect at high priority high schools. As a result, MDE could not determine the effectiveness of its support initiatives and did not modify its support initiatives developed to improve student academic achievement and to assist high priority schools in achieving adequate yearly progress (AYP). MDE spent \$67.6 million on its support initiatives from fiscal year 2004-05 through fiscal year 2008-09.

### Bridge Inspection Program, Michigan Department of Transportation (MDOT) (Fiscal Year 2009-10)

We concluded that MDOT was not effective in ensuring that bridge inspections and load ratings were completed in compliance with selected State and federal requirements. MDOT did not complete or ensure the completion of all scour evaluations and plans of action for scour critical bridges. As a result, MDOT did not comply with critical safety provisions of National Bridge Inspection Standards and risked the withholding of federal aid to highway funds.

Also, MDOT did not ensure that local bridge owners and MDOT regional offices completed some routine bridge inspections and inspections of the underwater structural elements of bridges in a timely manner. In addition, MDOT did not ensure that qualified team leaders complied with MDOT's bridge inspection frequency guidelines at all times.

Bureau of Correctional Industries (BCI), Department of Corrections (Fiscal Year 2008-09)

BCI needs to initiate further measures to ensure that it operates as a total self-supporting system. BCI's financial statements, as presented in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR), reported net income (loss) of (\$2,926,000), (\$2,291,000), \$352,000, and (\$2,182,000) for fiscal years 2004-05, 2005-06, 2006-07, and 2007-08, respectively.

Also, BCI had not developed and implemented a comprehensive business plan. A well-developed comprehensive business plan may have helped to prevent or lessen the financial losses sustained during the audit period. Our review disclosed that BCI had not identified its non-State customer's needs and did not ensure that jobs performed by prisoners provided marketable skills for outside of prison. A business plan would help ensure that BCI factories provide marketable job skills training in order to meet its goals.

In addition, BCI did not efficiently schedule and utilize its trucks and drivers for delivery of products and services. As a result, BCI made deliveries to the same destinations within seven days and incurred overtime costs.

Bureau of Passenger Transportation (BPT), Michigan Department of Transportation (Fiscal Year 2008-09)

BPT needs to strengthen its budget review process and its monitoring of actual expenditures made by public transportation providers so that unspent funds can be returned and redistributed by BPT on a more timely basis. BPT's practices resulted in some providers receiving excess funding; some providers receiving less funding than they were entitled to; and delays of 20 to 27 months in identifying, recouping, and redistributing excess funds to other providers.

BPT did not conduct timely maintenance and compliance reviews of public transportation providers. Without timely reviews, BPT cannot assess public transportation providers' ongoing compliance with State and federal requirements. Timely reviews would also help ensure that corrective actions, if necessary, are promptly initiated and completed by the public transportation providers.

Health Insurance Cost Avoidance and Recovery Section (HICARS), Department of Community Health (Fiscal Year 2008-09)

The audit report contained 10 findings, including 6 that were classified as material conditions. HICARS did not take required actions to identify or timely identify carriers that were liable to pay for health care services provided to recipients and to timely update its third party liability (TPL) database with relevant information related to the carriers. Also, HICARS did not effectively administer a vendor

contract for various TPL-related services and medical support enforcement services. As a result, HICARS paid the vendor \$5.5 million for services that were the financial responsibility of the Department of Human Services' Office of Child Support, contributed toward the loss of \$880,000 in matching federal funds, significantly overpaid the vendor, and missed an opportunity for other Medicaid cost savings.

HICARS did not effectively monitor and timely follow up on outstanding Post Payment Recovery System (PPRS) billings. As of October 17, 2007, these billings totaled \$213.4 million. Without appropriate follow-up, HICARS diminishes its opportunity for potentially significant Medicaid cost recoveries. Also, HICARS did not timely follow up on some of the PPRS billing rejections that it received from a large no-for-profit carrier.

In addition, HICARS did not attempt to recover or timely recover some Medicaid costs that were the potential liability of Medicare or one of several other carriers. DCH records indicated that these costs totaled at least \$29.0 million.

Michigan Economic Growth Authority (MEGA) Tax Credit Program, Department of Treasury (Fiscal Year 2009-10)

MSF's postaudit procedures were not sufficient to validate the summary information submitted with the companies' requests for tax credit certificates to the detail job claim and wage data maintained by the companies. MSF did not always identify additional potentially ineligible employees and wages from detailed employee data reported by the company and then follow up on those employees. MSF approved \$2.6 million in tax credits related to potentially ineligible employees and wages for 4 companies.

Michigan Tax Tribunal, Department of Energy, Labor & Economic Growth (Fiscal Year 2009-10)

The Tribunal had not established a process to ensure that it resolved tax appeals in an efficient and timely manner. As a result, the Tribunal's number of backlogged and pending appeals increased by 72%, from 14,824 in fiscal year 2005-06 to 25,451 in fiscal year 2007-08, which contributed to the significant delays in resolving taxpayers' appeals.

The Tribunal had not fully analyzed the efficiency or administrative effectiveness of using hearing officers from the State Office of Administrative Hearings and Rules (SOAHR). SOAHR incurred costs of \$1.9 million to conduct 6,502 hearings on the Tribunal's behalf. If the Tribunal had been able to use the \$1.9 million to directly contract for hearing referees, either of the following outcomes would have been

possible: (1) based on a per case cost of \$70, the Tribunal could have contracted for hearing referees to hear a total of 26,800 cases instead of hearing only 6,502 cases or (2) the Tribunal could have contracted hearing referees to hear the equivalent number of cases assigned to SOAHR (6,502) for only \$455,140, thus saving \$1.4 million in hearings costs during fiscal years 2005-06 through 2007-08.

Prisoner Transportation, Department of Corrections (DOC) (Fiscal Year 2008-09)

DOC had not developed a standardized method to identify, account for, document, and report prisoner transportation activity. As a result, DOC's ability to monitor prisoner transportation was limited and its actual prisoner transportation costs were misclassified in DOC's accounting records. During fiscal year 2006-07, DOC recorded \$23.6 million for corrections transportation officers' salaries and wages, vehicle costs to transport prisoners, and other miscellaneous transportation costs. These costs were for a total of 4,601,300 vehicle miles and approximately 102,000 overtime hours.

Also, DOC had not fully implemented its computerized prisoner transportation system to prioritize, schedule, route, and coordinate its prisoner transportation services. Such a system could provide DOC with a tool to ensure consistent and standardized reporting of transportation activity, enhance monitoring, prioritize transfers, and identify and reserve space at facilities and on vehicles for prisoners who need to be transferred. In addition, a fully implemented system would decrease the number of man-hours required to perform the preceding duties manually.

Road and Bridge Construction Project Monitoring, Michigan Department of Transportation (MDOT) (Fiscal Year 2009-10)

MDOT's control procedures did not ensure that required State Administrative Board (SAB) and State Transportation Commission (STC) approvals were obtained for all contract modifications that exceeded specified financial approval limits. For example, for 5 of 29 projects that we reviewed, MDOT processed contract modifications that included \$5.4 million of extra work items or adjustments that exceeded SAB limits without obtaining SAB approvals (total contract modifications ranged from approximately \$2,000 to approximately \$5 million for the 5 projects).

Also, MDOT needs to improve its monitoring of consultants hired to perform engineering and project monitoring services on road and bridge construction projects.

Selected Activities Within the Bureau of Construction Codes, Department of Energy, Labor & Economic Growth (Fiscal Year 2009-10)

The Bureau did not inspect boilers in a timely manner. Timely inspection of boilers is necessary to ensure that the public is protected from the operation of unsafe boilers. As of August 4, 2009, the Bureau's database showed that 10,156 (14%) of the State's 72,574 registered boilers were overdue for inspection.

The Bureau's controls over boiler and elevating equipment inspections did not ensure that inspection fees were properly collected. As of July 30, 2009, the Bureau had outstanding invoices for uncollected boiler and elevating equipment inspection fees totaling \$468,745, with some dating back to 1999.

Selected Payment and Related Systems, Michigan Department of Education (MDE) and Michigan Department of Information Technology (Fiscal Year 2008-09)

MDE had not established a comprehensive information systems security program and effective access controls over MDE information systems. The lack of a security program and effective access controls could result in unauthorized access and changes to data and unauthorized payments occurring and going undetected.

Also, MDE did not ensure the accurate processing of Michigan Electronic Grants System (MEGS) and Cash Management System (CMS) grant transactions. As a result, MDE issued duplicate and inaccurate federal and State payments to recipients. We noted 189 duplicate payments totaling \$9.3 million that were issued to grant recipients. MDE recouped the duplicate payments by adjusting the recipients' future grant payments. Also, CMS processed payments to the wrong recipients. Our review disclosed that 3 payments totaling \$570,137 were issued to the wrong recipients because the recipient federal employer identification numbers in CMS were inaccurate.

Selected Personnel and Other Administrative Costs, Department of Corrections (DOC) (Fiscal Year 2008-09)

DOC needs to improve its administration of custody officer staffing. This would help DOC reduce overtime costs, improve work performance, increase custody officer morale, and realize other residual benefits. As of December 31, 2007, DOC employed 9,782 custody officers at its 49 facilities. DOC paid overtime costs of \$66.9 million to custody officers for 1,924,513 nonholiday overtime hours worked in fiscal year 2006-07. Our review of DOC's staffing and fiscal year 2006-07 payroll data disclosed that DOC needs to take steps to reduce the amount of overtime worked by individual custody officers. We noted that during fiscal year 2006-07, DOC allowed 121 custody officers to each work more than 1,000 overtime hours; 1 custody officer to work 2,390 overtime hours; and 7 custody officers to work at least 7 consecutive days. We identified 35 instances in which custody officers worked 14

or more consecutive days, and DOC allowed 7 custody officers in 88 instances to work a double shift of 16 hours or more within consecutive work days. Finally, we noted that 1 custody officer had worked 40 consecutive days with 19 (48%) of the work days being double shifts and another custody officer had worked 19 consecutive days with 14 (74%) of the days being double shifts.

Also, DOC needs to pursue additional cost saving measures through future contract negotiations and review of its organizational structure. Pursuit of these additional cost savings could result in potential savings of as much as \$12.8 million. For example, if DOC discontinued providing a \$575 dry cleaning allowance to custody staff, it could save at least \$5.5 million annually; if DOC discontinued paying overtime based on paid hours, including annual leave, rather than based on actual hours worked, DOC estimated that it would save \$4.1 million per year from this contract change; if DOC discontinued making payments to employees for sick leave and physical fitness bonuses, it could save \$265,450 and \$142,450, respectively, per year; and if DOC discontinued paying a high security retention premium payment to employees who work in a level IV or higher security level correctional facility, it could save approximately \$3.4 million per year.

In addition, DOC did not have a formal process in place to negotiate prices for goods and services purchased from Michigan State Industries (MSI). As a result, DOC could not ensure that it realized optimal cost savings when purchasing goods and services from MSI. We estimated that DOC could have saved \$2.0 million if it had a process to negotiate prices for MSI goods and services.

Statewide Electronic Central Registry, Department of Human Services (DHS)  
(Fiscal Year 2009-10)

The audit report contained 9 findings, including 8 that were classified as material conditions. DHS had not established effective internal control to help ensure that it always added the substantiated perpetrators of child abuse and/or child neglect (CA/N) to the Central Registry that DHS identified during Children's Protective Services (CPS) investigations. As a result, DHS failed to add to the Central Registry 364 substantiated perpetrators of CA/N that DHS identified during Category I or Category II CPS investigations during the period November 2007 through September 2008.

Also, DHS had not established effective internal control to ensure that it completed and reviewed CPS investigations timely. As a result, perpetrators could go undetected by DHS's Central Registry clearance processes and potentially obtain or maintain access to children in a variety of situations.

In addition, DHS had not established effective internal control to help ensure that it obtained and maintained sufficient, accurate, and complete identifying information for substantiated perpetrators of CA/N in its Central Registry. As a result, DHS significantly increased the risk that substantiated perpetrators of CA/N could have direct, and potentially harmful, contact with children in vulnerable situations.

Further, DHS, in conjunction with the Department of Technology, Management & Budget, had not established effective internal control over DHS's automated Central Registry clearance processes. As a result, DHS did not identify 356 perpetrators of CA/N listed in the Central Registry and authorized the individuals for foster care, child day-care, and/or children's camp situations with direct access to at least 279 children during the period March 2006 through February 2009.

Vehicle and Travel Services (VTS), Department of Management and Budget (DMB) (Fiscal Year 2008-09)

Selected departments did not sufficiently monitor travel reimbursement transactions to ensure that reimbursement was made in compliance with the State of Michigan Standardized Travel Regulations (STR). Insufficient monitoring of reimbursements increases the risk of noncompliance and the potential for abuse. We estimated that the State incurred costs of \$1,372,968 that were not in compliance with STR related to mileage, meal, lodging, and other miscellaneous reimbursements for the period October 1, 2004 through April 30, 2007.

Also, VTS should improve its monitoring of the utilization of all of its motor fleet vehicles. The State incurred lease and insurance costs for vehicles that were not utilized efficiently and may have incurred unnecessary premium mileage costs for the use of employee personal vehicles when a motor fleet vehicle was available. We reviewed vehicle utilization for DMB motor pool vehicles and agency pool vehicles for the months of July 2006 and January, April, and June 2007. We determined that DMB motor pool vehicle usage failed to meet the 70% utilization goal in 51 (51.0%) of 100 instances and that agency pool vehicle usage failed to meet the 70% utilization goal in 89 (46.8%) of 190 instances.

## **Financial Audits**

Approximately 65% of our direct audit hours were used for financial audits in fiscal years 2008-09 and 2009-10.

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 18% and 11% of our direct audit hours were used to conduct the fiscal year 2007-08 and 2008-09 *SOMCAFR* audits, respectively.
2. Biennial audits, in conformance with the federal Single Audit Act Amendments of 1996, of State departments that receive significant federal funding. Approximately 43% and 39% of our direct audit hours were used to conduct Single Audits during fiscal years 2008-09 and 2009-10, respectively.
3. Periodic audits of other departments, funds, and component units. The composition and frequency of these financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 5% and 15% of our direct audit hours were used to conduct other financial audits in fiscal years 2008-09 and 2009-10, respectively.

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 Technology, Management & Budget (DTMB). 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 for fiscal year 2007-08, and 17 authorities and 10 public universities for fiscal year 2008-09, 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 2007-08 and 2008-09, the Auditor General's independent auditor's report, dated December 31, 2008 and February 27, 2010, 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 36 audit adjustments of \$497.6 million during fiscal years 2007-08 and 2008-09. State agencies and OFM made correcting entries for 12 of the 36 recommended adjustments. The net effect of the uncorrected adjustments was \$44.1 million in the government-wide statements and \$19.0 million in the fund level statements for fiscal years 2007-08 and 2008-09.

Significant deficiencies in internal control identified during the fiscal year 2007-08 *SOMCAFR* audit included:

- The Department of Treasury did not ensure that Single Business Tax (SBT) and Michigan Business Tax (MBT) collections were properly coded as to tax type within total tax revenues in the State's accounting records. As a result, SBT collections totaling \$146.2 million were recorded as MBT revenue in the State's accounting records. In addition, accounts receivable and deferred revenue in the General Fund and accounts receivable, revenue, and unrestricted net assets in the entity-wide statements related to SBT were understated by \$52.9 million.
- DCH did not have sufficient controls in place to ensure that all Medicaid eligibility determinations for providers and beneficiaries were properly supported by documentation. As a result, DCH could not ensure that it processed medical claims for reimbursement of Medicaid and Maternity Outpatient Medical Services (MOMS) invoices of \$75.7 million to eligible providers and \$41,000 for eligible beneficiaries. Medicaid reimbursed providers a total of \$8.2 billion for medical services provided to beneficiaries through the Medicaid Management Information System (MMIS) in fiscal year 2007-08.
- 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. As a result, the Department of Treasury did not have sufficient assurance that controls over the State's revenues were effective to ensure that all revenues were properly deposited and recorded in the State's accounts. The Department of Treasury has contracted with a service organization to collect and process over \$26.1 billion in tax revenue.

- DCH did not comply with State statute and federal regulations requiring approved contracts and budgets for community mental health services programs (CMHSPs) and prepaid inpatient health plans (PIHPs) prior to making contract payments. As a result, DCH could not ensure that payments were in accordance with approved contract requirements and were in compliance with State statute and federal regulations. In fiscal year 2007-08, DCH was appropriated State funds totaling \$413.6 million to provide mental health services through contracts with the 46 CMHSPs and \$1.7 billion to provide Medicaid mental health services through 18 PIHPs.
- 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 and approved. As a result, DCH could not ensure that payments to providers for Adult Home Help Program services were proper. In fiscal year 2007-08, DCH recorded \$207.0 million in Adult Home Help Program expenditures to an estimated 59,300 providers.

Significant deficiencies in internal control identified during the fiscal year 2008-09 *SOMCAFR* audit included:

- The Department of Treasury did not ensure that the Single Business Tax (SBT) receivable accrual calculation included the proper amount of SBT collections. As a result, taxes receivable and deferred revenue were overstated in the General Fund by \$65.5 million. In addition, taxes receivable, general revenues, and unrestricted net assets were overstated in the governmental activities of the government-wide statements by \$65.5 million.
- The Department of Treasury did not transfer the proper amount of Michigan Business Tax (MBT) revenue from the General Fund to the School Aid Fund. As a result, revenue, current assets, and fund balance were overstated by \$8.0 million in the General Fund and understated by \$8.0 million in the School Aid Fund.
- DCH did not have sufficient internal control over the data warehouse to ensure the integrity of the data related to the volume of pharmaceuticals purchased. As a result, DCH could not ensure that its reconciliations provided assurance that the pharmaceutical drug manufacturer rebates were accurate. During fiscal year 2008-09, the State billed pharmaceutical drug manufacturers approximately \$219 million for rebates.

### 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 \$500,000 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 2008-09 and 2009-10, we conducted 19 Single Audits and reported total net questioned costs of \$767.5 million.

We conducted the following Single Audits during fiscal year 2008-09:

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 (HAL)  
HAL's internal control over the Historic Preservation Fund Grants-In-Aid, Save America's Treasures, and Grants to States Programs did not ensure compliance with various federal laws and regulations. As a result, we reported known questioned costs totaling \$6.8 million. We issued 1 qualified opinion and 2 adverse opinions.
- Department of Human Services (DHS)  
We audited 14 programs as major programs and identified known questioned costs of \$163.8 million and known and likely questioned costs totaling \$671.0 million. DHS expended a total of \$6.5 billion in federal awards during the two-year period ended September 30, 2008. We issued 9 unqualified opinions, 3 qualified opinions, and 2 adverse opinions.

DHS's internal control over the Temporary Assistance for Needy Families (TANF) Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; subrecipient monitoring; and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with compliance requirements related to activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and special tests and provisions (child support noncooperation, Income Eligibility and Verification System (IEVS), penalty for refusal to work, adult custodial parent of child under six when childcare is not available, and penalty for failure to comply with Work Verification Plan). As a result, we issued an adverse opinion on compliance with federal laws and regulations for the TANF Program. Federal expenditures for the TANF Program totaled \$1.2 billion for the two-year period ended September 30, 2008. We identified known questioned costs of \$155,120,905 and known and likely questioned costs totaling \$376,321,590.

DHS's internal control over the Child Care and Development Fund (CCDF) Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CCDF Cluster. Federal expenditures for the CCDF Cluster totaled \$508.0 million for the two fiscal years ended September 30, 2008. We identified known questioned costs of \$2,948 and known and likely questioned costs totaling \$205,022,453.

- Department of Labor and Economic Growth (DLEG)  
We audited 15 programs as major programs and reported known questioned costs of \$22.4 million and known and likely questioned costs totaling \$22.4 million. DLEG expended \$960.8 million in federal awards during the two-year period ended September 30, 2008. We issued 9 unqualified opinions, 5 qualified opinions, and 1 adverse opinion.

DLEG's internal control over the Employment Service Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Employment Service Cluster. Federal expenditures for the Employment Service Cluster totaled \$63.0 million for the two-year period ended September 30, 2008.

DLEG distributed \$15.5 million and \$17.1 million of the Employment Service Cluster expenditures to 25 subrecipients (Michigan Works! Agencies) in fiscal years 2006-07 and 2007-08, respectively. We reported known questioned costs totaling \$5,006,009.

DLEG's internal control over the Occupational Safety and Health - State Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed and allowable costs/cost principles. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Occupational Safety and Health - State Program. Federal expenditures for the Occupational Safety and Health - State Program totaled \$19.6 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling \$5,517,367 and known and likely questioned costs totaling \$5,511,534.

DLEG's internal control over the Rehabilitation Services - Vocational Rehabilitation Grants to States Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. Our review disclosed a material weakness in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program. Federal expenditures for the Rehabilitation Services - Vocational Rehabilitation Grants to States Program totaled \$182.9 million for the two-year period ended September 30, 2008. We reported known questioned costs totaling \$10,676,526.

We conducted the following Single Audits during fiscal year 2009-10:

1. Department of Community Health
2. Department of Corrections
3. Department of Education
4. Department of Environmental Quality
5. Department of Military and Veterans Affairs
6. Department of Natural Resources
7. Michigan Department of State Police
8. Michigan Public Educational Facilities Authority

The material exceptions are summarized below:

- Department of Community Health (DCH)  
We audited 11 programs as major programs and reported known questioned costs of \$489.0 million. We issued 7 unqualified opinions, 2 qualified opinions, and 2 adverse opinions.

DCH's internal control over the Immunization Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions, period of availability of federal funds, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding special tests and provisions. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the Immunization Cluster and reported known questioned costs totaling \$28,155.

DCH's internal control over the Children's Health Insurance Program (CHIP) did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles and eligibility. As a result, we issued a qualified opinion on compliance with federal laws and regulations for CHIP.

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding eligibility; special tests and provisions pertaining to provider agreements with Medicaid's Adult Home Help Program providers and Medicaid-funded disproportionate share hospital payments for a State psychiatric hospital; allowable costs/cost principles; activities allowed or unallowed and allowable costs/cost principles; special tests and provisions pertaining to provider eligibility and provider health and safety standards; and reporting. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Medicaid Cluster and reported known questioned costs totaling \$373,209,678.

DCH's internal control over Block Grants for Prevention and Treatment of Substance Abuse (SAPT) did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding matching, level of effort, and earmarking. As a result, we issued an adverse opinion on compliance with federal laws and regulations for SAPT. We reported known questioned costs totaling \$116,414,361.

- Department of Education (MDE)  
MDE, in conjunction with the Michigan Department of Information Technology (MDIT), did not implement a comprehensive security program to protect its application systems and data. 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.
- Department of Environmental Quality (DEQ)  
DEQ's internal control over Air Pollution Control Program Support, the Capitalization Grants for Clean Water State Revolving Funds Program, the Nonpoint Source Implementation Grants Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Performance Partnership Grants Program did not ensure compliance with various federal laws and regulations. As a result, we reported known questioned costs totaling \$54,860 and known and likely questioned costs totaling \$106,452.
- Department of Military and Veterans Affairs  
The Department did not comply with National Guard Civilian Youth Opportunities (NGCYO) Program federal laws and regulations and cooperative agreements concerning eligibility. As a result, we issued a qualified opinion for this program. We reported known questioned costs of \$14,833,547 and known and likely questioned costs totaling \$16,362,235.
- Department of Natural Resources (DNR)  
DNR did not obtain sufficient assurances regarding the internal control of the service organization that operated the Central Reservation System. As a result, DNR could not ensure that the \$52.7 million in receipts processed by the Central Reservation System for the two-year period ended September 30, 2009 were properly safeguarded and completely processed.

Also, DNR's internal control over the Boating Safety Financial Assistance Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, procurement and suspension and debarment, and reporting. This resulted in a qualified opinion for this program. We identified known questioned costs of \$197 and known and likely questioned costs of \$686,591 in federal expenditures. We also identified known questioned costs of \$698 and known and likely questioned costs of \$828,103 in required match expenditures.

- Michigan Public Educational Facilities Authority

The Authority's internal control over the Credit Enhancement for Charter School Facilities (CECSF) Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, program income, reporting, and special tests and provisions for targeted charter schools, project time line, and investment types. Our review disclosed material weaknesses in internal control and material noncompliance regarding allowable costs/cost principles and special tests and provisions. As a result, we issued a qualified opinion on compliance with federal laws and regulations for the CECSF Program. We identified questioned costs totaling \$500,000.

### 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 of financial statements and/or financial schedules.

During fiscal year 2008-09, we conducted the following financial audits:

1. Commercial Mobile Radio Service Emergency Telephone Fund
2. Homeowner Construction Lien Recovery Fund
3. Michigan Education Trust Plans B and C
4. Michigan Education Trust Plan D
5. Michigan Exposition and Fairgrounds Authority
6. Michigan Tobacco Settlement Finance Authority

During fiscal year 2009-10, we conducted the following financial audits:

1. Emergency 9-1-1 Fund
2. Farm Produce Insurance Authority
3. Mackinac Bridge Authority
4. Michigan Economic Development Corporation
5. Michigan Education Trust Plans B and C
6. Michigan Education Trust Plan D
7. Michigan Exposition and Fairgrounds Authority
8. Michigan Higher Education Assistance Authority
9. Michigan Higher Education Assistance Authority - Michigan Guaranty Agency

10. Michigan Higher Education Facilities Authority
11. Michigan Higher Education Student Loan Authority
12. Michigan Judges' Retirement System
13. Michigan Justice Training Fund
14. Michigan Legislative Retirement System
15. Michigan Liquor Control Commission
16. Michigan Municipal Bond Authority
17. Michigan Public School Employees' Retirement System
18. Michigan State Employees' Retirement System
19. Michigan State Hospital Finance Authority
20. Michigan State Police Retirement System
21. Michigan Strategic Fund
22. Michigan Tobacco Settlement Finance Authority
23. State Building Authority
24. State of Michigan 401K Plan
25. State of Michigan 457 Plan
26. State Sponsored Group Insurance Fund

We noted the following material exception:

- Emergency 9-1-1 Fund, Michigan Department of State Police (MSP) and Department of Treasury

MSP and Department of Treasury internal control procedures did not ensure the proper recording of revenue and expenditures. As a result, \$1.7 million in revenue and \$1.2 million in expenditures were inaccurately recorded in the accounting records. Included in these amounts was a duplicate payment for a local exchange provider of \$168,485.

## **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.

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

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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**

### **Auditor General Tom McTavish - Named Outstanding CPA in Government**

On Monday, August 10, 2009 in Washington, DC, Michigan Association of Certified Public Accountants (MACPA) member Thomas H. McTavish, CPA, CGFM, received the American Institute of Certified Public Accountants' (AICPA's) Outstanding CPA in Government Award. Currently serving his third eight-year term as Auditor General for the State of Michigan (Michigan's longest-serving appointed auditor general), Tom has worked in state government for 36 years. A past MACPA board member, Tom has built Michigan's Office of the Auditor General into one of the country's most effective and highly regarded state audit departments. MACPA Chair of the Board Thomas Beard and President & CEO Peggy Dzierzawski were on hand for the award presentation during the AICPA's Governmental Accounting & Auditing Update Conference.



Outstanding CPA in State Government award recipient Auditor General Tom McTavish pictured with presenter Ernest Almonte (center) and Bob Dacey, Outstanding CPA in Federal Government award recipient.

### **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 2008-09 and 2009-10. These national awards recognized the OAG's continued auditing efforts. The OAG has earned Impact Awards for all 12 years that the OAG has participated in the NLPES Awards Program.

2009 NLPES Impact Award

The OAG received a 2009 Impact Award for the performance audit of Child Development and Care Program Payments, Department of Human Services, issued in July 2008. The audit team consisted of Yvonne Benn, Audit Supervisor; team members Dawn Anderson, Lori Wackerle, Mark Lee, Thomas Ongstad, Sara Crawford, Andy Mitchell, and former employee Renee Johnson-Maybee; Mark Freeman, Audit Division Administrator; and Melinda Hamilton, Audit Manager. The audit report contained 12 findings, including 7 material conditions. The audit had wide-ranging impact from the potential dollar savings, from program improvements, from the legislative perspective, and from the public perspective. We estimated that DHS made potential improper and, in some cases, potentially fraudulent CDC Program payments of \$231 million.



The audit team consisted of (left to right) Thomas Ongstad, Dawn Anderson, Mark Freeman, Sara Crawford, Melinda Hamilton, Lori Wackerle, Mark Lee, Yvonne Benn, and Andy Mitchell.

2010 NLPES Impact Award

The OAG received a 2010 Impact Award for the performance audit of Prisoner Food Services, Department of Corrections, issued in June 2008. The audit team consisted of Brian Kent, Audit Supervisor; Ivy Jaroche, Silhouette Todd, Mike Foerster, and former employees Kelly Bernath and Frank Schmid; Laura Hirst, ADA; and Mary Jo Koschay, Audit Manager.

Our audit assessed the effectiveness of DOC's efforts to manage food services costs and concluded that its efforts were moderately effective. Our audit reported two material conditions related to food services cost savings measures and food production and three reportable conditions related to food commodity purchases, warehouse controls over food inventory, and prisoner food services wages. The audit identified estimated cost savings of \$1.8 million and potential cost savings between \$10 million and \$38 million.



The audit team consisted of (left to right, front to back) Mary Jo Koschay, Laura Hirst, Ivy Jaroche, Mike Foerster, Silhouette Todd, and Brian Kent. Missing from the picture are former employees Kelly Bernath and Frank Schmid.

### **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 2008 AOPTA

The Child Day Care Performance Audit Project was the winner of the Audit Operations Project Team Awards (AOPTA) for the six-month period ended December 31, 2008. The audit project generated two audit reports: the performance audit of the Suitability of Child Development and Care Program Providers and the performance audit of Child Development and Care Program Payments. The audit team included Yvonne Benn, Audit Supervisor; audit team members Dawn Anderson, Lori Wackerle, Mark Lee, Andy Mitchell, Thomas Ongstad, Sara Crawford, and former employee Renee Johnson-Maybee; Mark Freeman, Audit Division Administrator; and Melinda Hamilton, Audit Manager.

The performance audit reports had a significant impact on the operations of the Department of Human Services' Child Development and Care Program, both in increasing the potential for the safety of children as well as the financial operation of the Program. The public interest in the reports was very high. The reports included 16 material findings and 6 reportable conditions.



The award for the sixth-month period ended December 31, 2008 was presented to the team of (left to right, front to back) Mark Lee, Yvonne Benn, Lori Wackerle, Thomas Ongstad, Andy Mitchell, Dawn Anderson, Melinda Hamilton, and Mark Freeman. Missing from the picture are Sara Crawford and former employee Renee Johnson-Maybee.

June 30, 2009 AOPTA

The performance audit of the Bureau of Correctional Industries, Department of Corrections (DOC), was the winner of the Audit Operations Project Team Award (AOPTA) for the six-month period ended June 30, 2009. The audit team consisted of Elmer Hess, Audit Supervisor; audit team members Ryan Austin, Dennis McMillan, and Hilary Goerge (retiree); Laura Hirst, Audit Division Administrator; and Mary Jo Koschay, Audit Manager.

This audit reported seven findings, including one material condition. The material condition highlighted that the Correctional Industries Revolving Fund had operated at a loss for several consecutive years, even though by law it was required to be a self-supporting system. The audit team also noted that the Fund continued to operate several unprofitable factories, had high supervisory overhead, and had paid prisoners for being idle during the years it reported losses. In addition, the audit team identified the need for the agency to develop a business plan, a marketing plan, and a continuous quality improvement (CQI) process and to survey customers. The team also identified issues with price setting and scheduling and utilization of delivery trucks.



The award for the sixth-month period ended June 30, 2009 was presented to the team of (left to right) Mary Jo Koschay, Dennis McMillian, Ryan Austin, Elmer Hess, Hilary Goerge, and Laura Hirst.

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.

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

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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**

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

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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.

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

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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, 2010.

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

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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.*

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## **Office of Information Technology**

The Office of Information Technology is responsible for managing our information systems 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.

### **Information Systems Network and Computer Support**

This section maintains the OAG information systems network and management information system and provides end-user computing (EUC) support to our audit staff. Our information systems network, through its connection to the State of Michigan's Wide Area Network, permits both our central office staff and staff at remote audit locations to communicate and share audit information in a secure manner. 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 2009-10, we upgraded our telephone system to allow better features and communication and expanded the virtualization of existing servers to provide for a more flexible and efficient 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 completing the virtualization of the OAG servers and redesigning the OAG Internet to be more accessible. We also plan to improve remote access availability for smart devices.

### **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).

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

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In fiscal year 2009-10, 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.

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

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### Recruiting

Because of budget constraints, we had limited campus recruiting activities. During the past two years, we successfully recruited and hired 14 student assistants for limited term appointments and replaced 6 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 2008-09 and 2009-10, the OAG provided 9,436 hours of continuing education. Training focused on detecting and preventing fraud and abuse through auditing procedure, Governmental Accounting Standards Board (GASB) updates, and how to manage change and transition during these times of economic challenge. The OAG provided technical training on the latest version of Microsoft Office.

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

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The State of Michigan also hosted the National Association of State Auditors Comptrollers and Treasurers (NASACT) Annual Conference in the summer of 2009. The OAG hosted this event in conjunction with the State Treasurer's Office and the Michigan Department of Management and Budget. Those

staff members who were able to attend this event had the opportunity to receive training from national speakers and trainers. Conference topics included: The American Recovery and Reinvestment Act (ARRA) of 2009, Making Government More Efficient and Effective, and Government Reform Issues.

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 120 professional audit staff employed at September 30, 2010, 72 had obtained certification from one or more of the various professional certification programs. The OAG professional audit staff included 67 certified public accountants, 4 certified internal auditors, and 11 certified information systems auditors. We also had 10 staff members who had earned master's degrees, 1 staff member who had a Juris Doctor degree, and 8 staff members who had completed associate's degrees in business controls and security, in addition to their bachelor's degrees.

During fiscal years 2008-09 and 2009-10, the following OAG staff members became certified public accountants:

Corrie Jameson	Steve Meyer
Ann McHenry	Rebecca Murray

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.

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<i>Certified public accountants.....</i>	<i>67</i>
<i>Certified internal auditors .....</i>	<i>4</i>
<i>Certified information systems auditors .....</i>	<i>11</i>
<i>Master's degrees ....</i>	<i>10</i>
<i>Associate's degrees in data processing .....</i>	<i>8</i>

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### **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), and the Management Information Database (MIDB).

### **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 information systems 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.

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

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## **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 2008-09

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

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
791-0100-09	<p><b>AGRICULTURE, DEPARTMENT OF</b>  Michigan Department of Agriculture - R</p> <p>The audit included an unqualified opinion on the Michigan Department of Agriculture's financial schedules. The audit identified significant deficiencies in internal control over financial reporting and considered three findings 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 6 programs as major programs and reported known questioned costs of \$69,746 and known and likely questioned costs of \$75,484. The Department expended a total of \$18.7 million in federal awards during the two-year period ended September 30, 2008. The audit included 5 unqualified opinions and 1 adverse opinion on the Department's compliance with major federal program requirements. 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 and considered one finding to contain material noncompliance. 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 a significant deficiency related to Section 18.1485 and considered this to be a material weakness in internal control.</p>	Single	10	4
111-0100-09	<p><b>ATTORNEY GENERAL, DEPARTMENT OF</b>  Department of Attorney General - R</p> <p>The audit included an unqualified opinion on the Department of Attorney General'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</p>	Single	1	0

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			New	Repeated
	<p>required to be reported under <i>Government Auditing Standards</i>. The audit covered one program as a major program and issued an unqualified opinion on the Department's compliance with major federal program requirements. The Department expended a total of \$7.5 million in federal awards during the two-year period ended September 30, 2008. The audit did not report any findings related to internal control over federal program compliance. The audit 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>.</p>			
	<p><b>CIVIL RIGHTS, DEPARTMENT OF</b></p>			
151-0100-09	<p>Department of Civil Rights - R</p> <p>The audit included an unqualified opinion on the Department of Civil Rights' 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 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 on the Department's compliance with major federal program requirements. The Department expended a total of \$4.1 million in federal awards during the two-year period ended September 30, 2008. The audit did not report any findings related to internal control over federal program compliance. The audit 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>.</p>	Single	0	0
	<p><b>COMMUNITY HEALTH, DEPARTMENT OF</b></p>			
391-0100-08	<p>Department of Community Health - R</p> <p>The audit included an unqualified opinion on the Department of Community Health's financial schedules. 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 that are required to be reported under</p>	Single	23	8

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p><i>Government Auditing Standards.</i> The audit covered 11 programs as major programs and reported known questioned costs of \$57.9 million and known and likely questioned costs totaling \$57.9 million. The Department expended a total of \$11.8 billion in federal awards during the two-year period ended September 30, 2007. The audit included 8 unqualified opinions and 3 qualified opinions on the Department's compliance with major federal program requirements. The audit identified significant deficiencies in internal control over federal program compliance and considered three findings 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 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 a significant deficiency.</p>			
391-0705-06	<p>Health Insurance Cost Avoidance and Recovery Section</p> <p>The audit concluded that the Health Insurance Cost Avoidance and Recovery Section's (HICARS's) efforts to timely identify carriers with liability for all or part of a recipient's health care costs and include relevant information related to the carriers in the third party liability database were not effective. It noted two material conditions and one reportable condition. The audit also concluded that HICARS's efforts to timely recover Medicaid costs from liable carriers were not effective or efficient. It noted four material conditions and one reportable condition. In addition, the audit concluded that HICARS's efforts to process suspended health care claims in a timely manner were effective and its efforts to process suspended health care claims in compliance with HICARS's written procedures were moderately effective. It noted one reportable condition. The audit further concluded that HICARS's efforts to ensure that the Medicaid claims processing system included the necessary edits to reject provider health care claims that were the liability of carriers were moderately effective. It noted one reportable condition.</p>	Performance	16	0

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			New	Repeated
471-0130-08	<p><b>CORRECTIONS, DEPARTMENT OF</b>            Bureau of Correctional Industries</p> <p>The audit concluded that the Bureau of Correctional Industries' efforts to efficiently provide products and services were not effective. It noted one material condition and three reportable conditions. The audit also concluded that the Bureau's efforts to provide marketable job skills to prisoners were moderately effective. It noted one reportable condition. In addition, the audit concluded that the Bureau's efforts to market products and services were moderately effective. It noted one reportable condition. The audit further concluded that the Bureau's efforts to provide products and services of a quality that meets or exceeds customer expectations were moderately effective. It noted one reportable condition.</p>	Performance	7	0
471-0239-08	<p>G. Robert Cotton Correctional Facility</p> <p>The audit concluded that the G. Robert Cotton Correctional Facility's efforts to comply with selected policies and procedures related to safety and security were moderately effective. It noted nine reportable conditions.</p>	Performance	9	0
471-0360-08	<p>Substance Abuse Services</p> <p>The audit concluded that Substance Abuse Services' efforts to evaluate outcomes related to substance abuse services provided to prisoners and parolees were moderately effective. It noted one reportable condition. The audit also concluded that Substance Abuse Services' contract management over providers of substance abuse services was moderately effective. However, it noted one reportable condition.</p>	Performance	2	0
471-0614-98F	<p>Follow-Up Report of Employee Discipline and Grievance Programs</p> <p>The follow-up disclosed that the Department of Corrections had complied with one recommendation and had not complied with the other recommendation.</p>	Performance	N/A	N/A

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
471-0620-07L	<p>Selected Personnel and Other Administrative Costs</p> <p>The audit concluded that the Department of Corrections' efforts to manage costs related to staffing, overtime, and salaries and benefits were moderately effective. It noted two reportable conditions. The audit also concluded that the Department's efforts to manage other administrative costs were effective. However, it noted one reportable condition.</p>	Performance	3	0
471-0623-07L	<p>Prisoner Transportation</p> <p>The audit concluded that the Department of Corrections' efforts to manage prisoner transportation costs were moderately effective. It noted five reportable conditions.</p>	Performance	1	4
<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>				
313-0590-08	<p>Selected Payment and Related Systems</p> <p>The audit concluded that Michigan Department of Education and Michigan Department of Information Technology's security and access controls over the selected information systems were not effective. It noted two material conditions and one reportable condition. The audit also concluded that the Departments were moderately effective in their efforts to ensure the integrity of data maintained by the Departments for use in the selected information systems. It noted one material condition and three reportable conditions. In addition, the audit concluded that the Departments were moderately effective in their efforts to ensure that the selected information systems accurately calculated federal and State payments. It noted one material condition and four reportable conditions.</p>	Performance	12	0
<b>ENERGY, LABOR &amp; ECONOMIC GROWTH, DEPARTMENT OF</b>				
641-0100-09	<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 financial schedules. It 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>. The audit covered 15 programs as major programs and reported known questioned costs of \$22.4 million and known and likely questioned costs totaling</p>	Single	13	1

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			New	Repeated
	<p>\$22.4 million. The Department expended \$960.8 million in federal awards during the two-year period ended September 30, 2008. The audit included 9 unqualified opinions, 5 qualified opinions, and 1 adverse opinion on the Department's compliance with major federal program requirements. The audit identified significant deficiencies in internal control over federal program compliance and considered five findings 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 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>			
641-0420-08	<p>Homeowner Construction Lien Recovery Fund</p> <p>The audit included an unqualified opinion on the Homeowner Construction Lien Recovery Fund's financial statements. The audit identified a significant deficiency in internal control over financial reporting and considered that finding to be a material weakness. 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>.</p>	Financial	1	0
641-0591-08	<p>Accessible Web-Based Activity and Reporting Environment (AWARE)</p> <p>The audit concluded that the Department of Energy, Labor, &amp; Economic Growth and the Michigan Department of Information Technology's security and access controls over the Accessible Web-Based Activity and Reporting Environment (AWARE) were not effective. It noted two material conditions and five reportable conditions. The audit also concluded that the Department of Energy, Labor, &amp; Economic Growth was moderately effective in its efforts to establish system controls over the processing of data within AWARE. It noted three reportable conditions.</p>	Performance	10	0

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			New	Repeated
761-0217-08	<p><b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>            Clean Michigan Initiative Environmental Protection Programs</p> <p>The audit concluded that the Department of Environmental Quality's processes for identifying and selecting projects to fund with Clean Michigan Initiative (CMI) bond proceeds were effective. The audit also concluded that the Department's contracting and monitoring efforts of CMI-funded projects were effective. In addition, the audit concluded that the Department's efforts to establish and achieve program goals for CMI-funded programs were moderately effective. It noted one reportable condition. The audit further concluded that the Department's process to identify and allocate administrative costs to CMI-funded programs was effective.</p>	Performance	0	1
251-0100-09	<p><b>HISTORY, ARTS AND LIBRARIES, DEPARTMENT OF</b>            Department of History, Arts and Libraries - R</p> <p>The audit included an unqualified opinion on the Department of History, Arts and Libraries' financial schedules. 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 that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other instances of noncompliance. The audit covered 3 programs as major programs and reported known questioned costs of \$6.8 million. The Department expended a total of \$12.0 million in federal awards during the two-year period ended September 30, 2008. The audit included 1 qualified opinion and 2 adverse opinions on the Department's compliance with major federal program requirements. The audit identified significant deficiencies in internal control over federal program compliance and considered three findings 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 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	5	5

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			New	Repeated
431-0100-09	<p><b>HUMAN SERVICES, DEPARTMENT OF</b>                      Department of Human Services - R</p> <p>The audit included unqualified opinions on the Department of Human Services' financial schedules and on the financial statements of the Children's Trust Fund. 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 and/or financial statements that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other instances of noncompliance. The audit covered 14 programs as major programs and identified known questioned costs of \$163.8 million and known and likely questioned costs totaling \$671.0 million. The Department expended a total of \$6.5 billion in federal awards during the two-year period ended September 30, 2008. The audit included 9 unqualified opinions, 3 qualified opinions, and 2 adverse opinions on the Department's compliance with major federal program requirements. The audit identified significant deficiencies in internal control over federal program compliance and considered seven findings to contain 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 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	14	29
084-0522-08	<p><b>INFORMATION TECHNOLOGY, MICHIGAN DEPARTMENT OF</b>                      Advanced Purchasing and Inventory Control System (ADPICS)</p> <p>The audit concluded that the Department of Management and Budget and Michigan Department of Information Technology's (MDIT's) efforts to establish controls to prevent and detect transactions that exceed the purchasing authority in ADPICS were moderately effective. It noted two reportable conditions. The audit also concluded that the Office of the State Budget (OSB) and MDIT's security and access controls over ADPICS were moderately effective. It noted two reportable conditions. In addition, the audit concluded that OSB and MDIT's controls to ensure the complete and accurate transfer of data from ADPICS to the Relational Standard Accounting and Reporting System (R*STARS) were effective.</p>	Performance	4	0

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			New	Repeated
084-0597-09	<p>General Controls Over the Data Collection and Distribution System (DCDS) and the Human Resources Management Network (HRMN)</p> <p>The audit concluded that the Michigan Department of Information Technology's (MDIT's) security and access controls over the Data Collection and Distribution System (DCDS) and Human Resources Management Network (HRMN) operating systems were not effective. It noted one material condition. The audit also concluded that MDIT's security and access controls over the DCDS and HRMN database management systems were not effective. It noted one material condition. In addition, the audit concluded that MDIT's configuration management controls over DCDS and HRMN were moderately effective. It noted one reportable condition.</p>	Performance	3	0
<b>JUDICIAL</b>				
950-0150-09	<p>State-Funded Judicial Operations - R</p> <p>The audit included an unqualified opinion on the State-funded judicial operations' 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>. The audit covered 5 programs as major programs and issued 5 unqualified opinions on the State-funded judicial operations' compliance with major federal program requirements. The State-funded judicial operations expended a total of \$9.2 million in federal awards during the two-year period ended September 30, 2008. The audit identified significant deficiencies in internal control over federal program compliance and considered one finding to contain a material weakness. 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	3	0
<b>MANAGEMENT AND BUDGET, DEPARTMENT OF</b>				
071-0010-09	<p>State of Michigan Comprehensive Annual Financial Report, Office of the State Budget, Fiscal Year 2007-08 - R</p>	Financial	9	4

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			New	Repeated
071-0030-09	* Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Article IX, Section 26 and Section 33), Fiscal Year 2007-08 - R	Financial	N/A	N/A
071-0031-09	* Review of Proportion of Total State Spending From State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Article IX, Section 30), Fiscal Year 2007-08 - R	Financial	N/A	N/A
071-0305-09	Michigan Exposition and Fairgrounds Authority (A Discretely Presented Component Unit of the State of Michigan)  The audit included an unqualified opinion on the Michigan Exposition and Fairgrounds Authority's financial statements. 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 statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	1	1
071-0136-07	Vehicle and Travel Services  The audit concluded that the implementation of the State of Michigan Standardized Travel Regulations by selected departments was moderately effective. It noted one reportable condition. The audit also concluded that the utilization of the State's motor fleet was moderately efficient. It noted one reportable condition. In addition, the audit concluded that State purchased car wash services were efficient. However, it noted one reportable condition. The audit further concluded that the Department of Management and Budget's efforts to monitor and enforce controls over motor fleet fuel purchases were effective.	Performance	3	0
751-0100-08	<b>NATURAL RESOURCES, DEPARTMENT OF</b> Department of Natural Resources - R  The audit included unqualified opinions on the Department of Natural Resources' financial statements and 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 applicable to the financial statements and/or financial schedules that are required to be reported under	Single	6	6

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			New	Repeated
	<p><i>Government Auditing Standards.</i> The audit covered 6 programs as major programs and reported known questioned costs of \$2,706,279 and known and likely questioned costs totaling \$2,775,034. The Department expended a total of \$81.7 million in federal awards during the two-year period ended September 30, 2007. The audit included 4 unqualified opinions and 2 qualified opinions on the Department's compliance with major federal program requirements. The audit identified significant deficiencies in internal control over federal program compliance and considered two findings to contain 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 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>			
231-0100-09	<p><b>STATE, DEPARTMENT OF</b>            Department of State - R</p> <p>The audit included an unqualified opinion on the Department of State'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 noncompliance. The audit covered 5 programs as major programs and issued 5 unqualified opinions on the Department's compliance with major federal program requirements. The Department expended a total of \$7.1 million in federal awards during the two-year period ended September 30, 2008. The audit did not report any findings related to internal control over federal program compliance. The audit 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>.</p>	Single	2	0

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			New	Repeated
231-0200-08	<p>Cash Receipts and Branch Office Customer Service</p> <p>The audit concluded that the Department of State's efforts in establishing controls over its cash receipts operations to ensure the proper safeguarding of assets were moderately effective. It noted three reportable conditions. The audit also concluded that the Department's efforts to ensure that appropriate fees are charged to customers and are collected and recorded in an accurate and timely manner were moderately effective. It noted two reportable conditions. In addition, the audit concluded that the Department's efforts in providing efficient customer service at branch offices were effective.</p>	Performance	6	0
551-0130-08	<p><b>STATE POLICE, MICHIGAN DEPARTMENT OF</b></p> <p>Criminal History Records Database, Warrants Database, and Traffic Crash Reporting System Within the Criminal Justice Information Center</p> <p>The audit concluded that the Criminal Justice Information Center's (CJIC's) efforts to ensure the accuracy of the Criminal History Records Database were effective and efficient. However, it noted one reportable condition. The audit also concluded that CJIC's efforts to ensure the validity of warrants in the Warrants Database were effective and efficient. In addition, the audit concluded that CJIC was moderately efficient in maintaining the Traffic Reporting System. It noted one reportable condition.</p>	Performance	3	0
591-0100-09	<p><b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b></p> <p>Michigan Department of Transportation - R</p> <p>The audit included an unqualified opinion on the Michigan Department of Transportation's financial statements. 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 statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 4 programs as major programs and issued 4 unqualified opinions on the Department's compliance with major federal program requirements. The Department expended a total of \$2.3 billion in federal awards during the two-year period ended September 30, 2008. The audit identified a significant deficiency in internal control over federal program compliance. However, it did not consider this</p>	Single	8	0

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			New	Repeated
	<p>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>.</p>			
591-0180-07	<p>Bureau of Passenger Transportation</p> <p>The audit concluded that the Bureau of Passenger Transportation's efforts in monitoring the activities of public transportation providers as permitted or required by State and federal laws and regulations were moderately effective. It noted three reportable conditions. The audit also concluded that the Bureau's efforts in establishing and monitoring its goals and objectives were moderately effective. It noted one reportable condition. In addition, the audit concluded that the Bureau's efforts in distributing grant funds to public transportation providers and in leasing buses to intercity service providers were effective and efficient.</p>	Performance	4	0
	<p><b>TREASURY, DEPARTMENT OF</b></p>			
271-0245-08	<p>Principal Residence Exemption Program</p> <p>The audit concluded that the Department of Treasury was effective in its efforts to identify and to audit questionable principal residence exemptions in counties that have elected to have the State perform these compliance audits. However, it noted one reportable condition. The audit also concluded that the Department was moderately effective in its efforts to assist and to monitor counties that have elected to perform principal residence exemption compliance audits. It noted three reportable conditions.</p>	Performance	4	0
271-0265-08	<p>Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury and Michigan Department of State Police - R</p> <p>The audit included an unqualified opinion on the Commercial Mobile Radio Service Emergency Telephone Fund'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>.</p>	Financial	1	0

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			New	Repeated
271-0283-09	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
271-0284-09	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
271-0285-09	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. 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
271-0400-09	Michigan Strategic Fund (A Discretely Presented Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Strategic Fund's financial statements. 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 statements that are required to be reported under <i>Government Auditing Standards</i> . The audit covered one program as a major program and issued an unqualified opinion on the Fund's compliance with major federal program requirements. The Fund expended a total of \$88.0 million in federal awards during the two-year period ended September 30, 2008. The audit identified a significant deficiency in internal control over federal	Single	4	0

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			New	Repeated
	<p>program compliance. However, it did not consider this significant deficiency to be a material weakness. The audit identified an instance of noncompliance that is required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>			
271-0405-09	<p>Michigan Economic Development Corporation (A Discretely Presented 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. The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the 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 required to be reported under <i>Government Auditing Standards</i>. The audit covered one program as a major program and issued an unqualified opinion on the Corporation's compliance with major federal program requirements. The Corporation expended a total of \$2.7 million in federal awards during the two-year period ended September 30, 2008. The audit did not report any findings related to internal control over federal program compliance. The audit 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
	<p><b>UNIVERSITIES AND COLLEGES</b></p>			
032-0650-06	<p>Michigan Technical Education Centers</p> <p>The audit concluded that community colleges' efforts were effective in evaluating Michigan Technical Education Centers' (M-TECs') needs to provide occupational training for high-wage, high-skill, and high-demand occupations. The audit also concluded that community colleges' efforts were effective in developing and implementing occupational training programs. However, it could not determine what effect the programs had in providing viable and sustainable employment. It noted one reportable condition. In addition, the audit concluded that community colleges' efforts were moderately effective in providing proposed activities and fulfilling selected M-TEC grant requirements. It noted one reportable condition. The audit further concluded that the Department of Labor and Economic Growth's efforts were moderately effective in evaluating M-TECs. It noted three reportable conditions.</p>	Performance	5	0

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			New	Repeated
032-0651-07	Developmental Education at Michigan Public Community Colleges The audit concluded that Michigan public community colleges' efforts to promote an understanding of college readiness expectations and communicate them to high school administrators and students were moderately effective. It noted one reportable condition. The audit analyzed and provided data regarding developmental education at Michigan public community colleges. It included 2 observations and 12 exhibits.	Performance	1	0
			<u>195</u>	<u>63</u>

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

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
<b>AGRICULTURE, DEPARTMENT OF</b>				
791-0360-10	Farm Produce Insurance Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Farm Produce Insurance 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>COMMUNITY HEALTH, DEPARTMENT OF</b>				
391-0100-10	Department of Community Health - R  The audit included an unqualified opinion on the Department of Community Health's financial schedules. It identified significant deficiencies in 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 11 programs as major programs and reported known questioned costs of \$489.0 million and known and likely questioned costs totaling \$4.4 billion. Known and likely questioned costs were based on documentation provided to us by the Department during our audit fieldwork. However, it is possible that the Department could obtain additional documentation that would reduce the amount of known and likely questioned costs. Therefore, the financial risk to the State is indeterminable. The Department expended a total of \$15.2 billion in federal awards during the two-year period ended September 30, 2009. The audit included 7 unqualified opinions, 2 qualified opinions, and 2 adverse opinions on the Department's compliance with major federal program requirements. It identified significant deficiencies in internal control over federal program compliance and	Single	24	20

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	<p>considered 9 findings to be material weaknesses. It also 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>. However, it did identify a significant deficiency.</p> <p><b>CORRECTIONS, DEPARTMENT OF</b></p>			
471-0100-10	<p>Department of Corrections - R</p> <p>The audit included an unqualified opinion on the Department of Corrections' 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 (including 1 ARRA related program) as major programs and reported known questioned costs of \$53,131. The Department expended a total of \$199.3 million in federal awards during the two-year period ended September 30, 2009. The audit included 2 unqualified opinions on the Department's compliance with major federal program requirements. It identified a significant deficiency in internal control over federal program compliance and did not consider this significant deficiency to be a material weakness. It also 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>.</p>	Single	1	0
471-0215-09	<p>Richard A. Handlon Correctional Facility</p> <p>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 eight reportable conditions.</p>	Performance	9	0
471-0233-09	<p>Ionia Maximum Correctional Facility</p> <p>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 two material conditions and eight reportable conditions.</p>	Performance	10	0

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			New	Repeated
471-0234-09	<p>Saginaw Correctional Facility</p> <p>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 one material condition and five reportable conditions. The audit also concluded that selected Facility business office operations were moderately effective. It noted two reportable conditions.</p>	Performance	7	1
<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>				
313-0100-10	<p>Michigan Department of Education - R</p> <p>The audit included unqualified opinions on the Michigan Department of Education's financial schedules and on the School Aid Fund's financial statements. It identified significant deficiencies in 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>. The audit covered 18 programs as major programs and identified known questioned costs of \$12.1 million. The Department expended and distributed a total of \$3.7 billion in federal awards during the two-year period ended September 30, 2009. The audit included 18 unqualified opinions on the Department's compliance with major federal program requirements. It identified significant deficiencies related to internal control over federal program compliance and did not consider these significant deficiencies to be material weaknesses. It also identified 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 the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>	Single	9	11
313-0201-08	<p>Assistance to High Priority Schools, Office of School Improvement</p> <p>The audit concluded that the Michigan Department of Education (MDE) was moderately effective in assisting high priority elementary and middle schools to make adequate yearly progress (AYP), but its efforts were not effective in assisting high priority high schools. It noted</p>	Performance	6	0

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			New	Repeated
	<p>one material condition and one reportable condition. The audit also concluded that MDE was not effective in monitoring its subrecipients that provided assistance to high priority schools. It noted two material conditions and one reportable condition.</p> <p><b>ENERGY, LABOR &amp; ECONOMIC GROWTH, DEPARTMENT OF</b></p>			
641-0161-10	<p>* Michigan Liquor Control Commission</p> <p>The audit included an unqualified opinion on the Liquor Purchase Revolving Fund 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>.</p>	Financial	N/A	N/A
641-0207-08	<p>Michigan Tax Tribunal</p> <p>The audit concluded that the Tribunal was not efficient and effective in its processing of tax appeals. It noted one material condition and three reportable conditions. The audit also concluded that the Tribunal's efforts to ensure that State agencies were provided notice of tax disputes that significantly affected School Aid Fund payments and State education tax revenues were moderately effective. It noted one reportable condition.</p>	Performance	6	0
641-0240-09	<p>Selected Activities Within the Bureau of Construction Codes</p> <p>The audit concluded that the Bureau was moderately effective and efficient in its efforts to conduct boiler, elevator, and manufactured housing community inspections. It noted one material condition and three reportable conditions. The audit also concluded that the Bureau was effective and efficient in its efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators. The audit did not include any reportable conditions related to this audit objective. In addition, the audit concluded that the Bureau's controls over the receipting and accounting of revenue collected by the Bureau were moderately effective. It noted two reportable conditions. Further, the audit concluded that the Bureau was effective in its monitoring of open permits. However, it noted one reportable condition.</p>	Performance	2	5

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			New	Repeated
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>				
<p><b>Note:</b> Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of Natural Resources (DNR) and Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ. Accordingly, our recommendations in this report are directed to DNRE.</p>				
761-0100-10	Department of Environmental Quality - R	Single	5	5
<p>The audit included unqualified opinions on DEQ's financial statements and 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 statements and/or financial schedules that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 8 programs (including 3 ARRA related programs) as major programs and reported known questioned costs of \$54,860 and known and likely questioned costs totaling \$106,452. DEQ expended a total of \$265.5 million in federal awards during the two-year period ended September 30, 2009. The audit included 4 unqualified opinions and 4 qualified opinions on DEQ's compliance with major federal program requirements. It identified significant deficiencies in internal control over federal program compliance and considered 5 findings to contain material weaknesses. In addition, the audit identified 8 recommendations repeated from our prior report for the two-year period ended September 30, 2007. It also 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 DEQ was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p>				
<b>HUMAN SERVICES, DEPARTMENT OF</b>				
431-0142-08	Michigan State Disbursement Unit, Office of Child Support - R	Performance	1	0
<p>The audit concluded that the Unit's efforts in monitoring its service provider were effective. However, the audit noted one reportable condition.</p>				

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
431-1100-08	<p>Michigan Early Childhood Investment Corporation (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Early Childhood Investment Corporation's (ECIC's) financial statements. It identified significant deficiencies in 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 statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered one program as a major program and included an unqualified opinion on ECIC's compliance with major federal program requirements. The audit identified known questioned costs of \$571,109 and known and likely questioned costs totaling \$576,781. ECIC expended a total of \$23.5 million in federal awards during the two-year period ended September 30, 2007. The audit identified significant deficiencies in internal control over federal program compliance and did not consider these significant deficiencies to be material weaknesses. It also identified 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	2	0
431-2100-08	<p>Statewide Electronic Central Registry</p> <p>The audit concluded that the Department of Human Services' (DHS's) efforts to establish internal control to help ensure that the Central Registry included all perpetrators of child abuse and/or neglect (CA/N) that were required to be listed in the Central Registry were not effective. It noted three material conditions and one reportable condition. The audit also concluded that DHS's efforts to establish internal control to help ensure that the Central Registry contained sufficient, accurate, and complete information to identify perpetrators of CA/N were not effective. It noted three material conditions. In addition, the audit concluded that DHS's efforts to establish internal control to help ensure that DHS's Central Registry clearance procedures appropriately identify perpetrators listed in the Central Registry were not effective. It noted two material conditions.</p>	Performance	11	0

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	<p><b>INFORMATION TECHNOLOGY, MICHIGAN DEPARTMENT OF</b></p> <p><b>Note:</b> Executive Order No. 2009-55, effective March 21, 2010, renamed the Department of Management and Budget as the Department of Technology, Management &amp; Budget (DTMB) and abolished the Michigan Department of Information Technology. Audit reports issued after March 21, 2010 are located under the DEPARTMENT OF TECHNOLOGY, MANAGEMENT &amp; BUDGET.</p>			
084-0550-09	<p>Unisys Mainframe General Controls</p> <p>The audit concluded that the Michigan Department of Information Technology's (MDIT's) access controls over the State's mainframe information systems were moderately effective. It noted three reportable conditions. The audit also concluded that MDIT's efforts in establishing physical and environmental controls over the State's mainframe information systems were moderately effective. It noted one reportable condition. In addition, the audit concluded that MDIT's efforts in establishing appropriate backup and disaster recovery controls over the State's mainframe information systems were moderately effective. It noted one reportable condition.</p>	Performance	5	0
	<p><b>LEGISLATURE</b></p>			
900-0140-09	<p>Michigan Legislative Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Legislative Retirement System 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>.</p>	Financial	0	0

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			New	Repeated
<b>MANAGEMENT AND BUDGET, DEPARTMENT OF</b>				
<p><b>Note:</b> Executive Order No. 2009-55, effective March 21, 2010, renamed the Department of Management and Budget as the Department of Technology, Management &amp; Budget (DTMB) and abolished the Michigan Department of Information Technology. Audit reports issued after March 21, 2010 are located under the DEPARTMENT OF TECHNOLOGY, MANAGEMENT &amp; BUDGET.</p>				
071-0143-10	State Sponsored Group Insurance Fund, Department of Management and Budget, Civil Service Commission, and Office of the State Employer - R	Financial	0	0
<p>The audit included an unqualified opinion on the State Sponsored Group Insurance 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>.</p>				
071-0151-10M	Michigan State Employees' Retirement System - R	Financial	2	0
<p>The audit included an unqualified opinion on the Michigan State Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>				

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071-0152-10M	<p>Michigan Public School Employees' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Public School Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Public School Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	2	0
071-0153-10M	<p>Michigan Judges' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Judges' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	2	0
071-0154-10M	<p>Michigan State Police Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan State Police Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p>	Financial	2	0

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071-0155-10 and 071-0155-10M	<p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p> <p>State of Michigan 457 Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 457 Plan's financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the State of Michigan 457 Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
071-0156-10 and 071-0156-10M	<p>State of Michigan 401K Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 401K Plan financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the State of Michigan 401K Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0

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			New	Repeated
071-0182-10 and 071-0182-10M	<p>State Building Authority (A Blended Component Unit of the State of Michigan) - R</p> <p>The audit included unqualified opinions on the financial statements of the governmental activities and each major fund of the State Building Authority. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the State Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0305-10 and 071-0305-10M	<p>Michigan Exposition and Fairgrounds Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Exposition and Fairgrounds Authority's financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Exposition and Fairgrounds Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
<b>MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF</b>				
511-0100-10	<p>Department of Military and Veterans Affairs - R</p> <p>The audit included an unqualified opinion on the Department of Military and Veterans Affairs' financial statements. It identified significant deficiencies in internal</p>	Single	7	3

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			New	Repeated
	<p>control over financial reporting and considered one finding to contain a material weakness. It 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>. However, it did identify other instances of noncompliance. The audit covered 5 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$14,833,547 and known and likely questioned costs totaling \$16,362,235. The Department expended a total of \$154.8 million in federal awards during the two-year period ended September 30, 2009. The audit included 2 unqualified opinions and 3 qualified opinions on the Department's compliance with major federal program requirements. It identified significant deficiencies in internal control over federal program compliance and considered 4 findings to be material weaknesses. It also 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>.</p> <p><b>NATURAL RESOURCES, DEPARTMENT OF</b></p> <p><b>Note:</b> Executive Order No. 2009-45 created the Department of Natural Resources and Environment (DNRE), effective January 17, 2010. It transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of Natural Resources (DNR) and the Department of Environmental Quality (DEQ) to DNRE by a Type II transfer and abolished DNR and DEQ. Accordingly, our recommendations in this report are directed to DNRE.</p>			
751-0100-10	<p>Department of Natural Resources - R</p> <p>The audit included unqualified opinions on DNR's financial statements and financial schedules. It identified significant deficiencies in internal control over financial reporting and considered one finding to be a material weakness. It did not identify any instances of noncompliance applicable to the financial statements and/or financial schedules that are required to be reported under <i>Government Auditing Standards</i>. However, it did</p>	Single	6	4

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			New	Repeated
	<p>identify other instances of noncompliance. The audit covered 7 programs as major programs and reported known questioned costs of \$20,879 and known and likely questioned costs of \$3,402,113. DNR expended a total of \$92.4 million in federal awards during the two-year period ended September 30, 2009. The audit included 6 unqualified opinions and 1 qualified opinion on DNR's compliance with major federal program requirements. It identified significant deficiencies related to internal control over major programs and considered one finding to be a material weakness. In addition, the audit identified 3 recommendations repeated from our prior report for the two-year period ended September 30, 2007. It also 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 DNR was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>.</p> <p><b>STATE, DEPARTMENT OF</b></p>			
231-0591-04F	<p>Qualified Voter File and Digital Driver's License Systems</p> <p>The follow-up disclosed that the Department of State and the Department of Technology, Management &amp; Budget had partially complied with the 2 recommendations. However, a material condition still existed relating to Qualified Voter File database server security and a reportable condition existed relating to security concerns with the Digital Driver's License contract.</p> <p><b>STATE POLICE, MICHIGAN DEPARTMENT OF</b></p>	Performance	N/A	N/A
551-0100-10	<p>Michigan Department of State Police - R</p> <p>The audit included an unqualified opinion on the Michigan Department of State Police's financial schedules. It 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 10 programs as major programs and issued 10 unqualified opinions on the Department's compliance with major federal program</p>	Single	7	0

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	<p>requirements. The Department expended a total of \$278.2 million in federal awards during the two-year period ended September 30, 2009. 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 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>			
551-0101-10	<p>Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards - R</p> <p>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>.</p> <p><b>TECHNOLOGY, MANAGEMENT &amp; BUDGET, DEPARTMENT OF</b></p> <p><b>Note:</b> Executive Order No. 2009-55, effective March 21, 2010, renamed the Department of Management and Budget as the Department of Technology, Management &amp; Budget (DTMB) and abolished the Michigan Department of Information Technology. Audit reports issued after March 21, 2010 are located under the DEPARTMENT OF TECHNOLOGY, MANAGEMENT &amp; BUDGET.</p>	Financial	0	0
071-0010-10	State of Michigan Comprehensive Annual Financial Report, State Budget Office, Fiscal Year 2008-09 - R	Financial	8	2
071-0030-10	* Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Article IX, Section 26 and Section 33), Fiscal Year 2008-09 - R	Financial	N/A	N/A

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071-0031-10	* Review of Proportion of Total State Spending From State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Article IX, Section 30), Fiscal Year 2008-09 - R	Financial	N/A	N/A
071-0131-09	Statewide Cost Allocation Plan and Interagency Billing Processes  The audit concluded that DTMB's efforts to implement the Statewide Cost Allocation Plan (SWCAP) were effective. It did not identify any reportable conditions related to this audit objective. The audit also concluded that DTMB's processes for recovery of selected central service costs were effective. It did not identify any reportable conditions related to this audit objective.	Performance	0	0
084-0150-04F	Computer Equipment Surplus and Salvage  The follow-up disclosed the DTMB had partially complied with the 1 recommendation. DTMB had completed some corrective action, but a reportable condition still existed.	Performance	N/A	N/A
084-0520-04F	Teradata Data Warehouse  The follow-up disclosed that DTMB had partially complied with the 3 recommendations. However, a material condition still existed for the server security plan recommendation and reportable conditions existed for the other 2 recommendations.	Performance	N/A	N/A
084-0563-09	Statewide UNIX Security  The audit concluded that DTMB's controls to ensure the security of the State's UNIX servers were moderately effective. The audit noted five reportable conditions.	Performance	5	0
084-0570-08	Data Privacy  The audit concluded that DTMB's efforts to implement a Statewide data privacy program to protect the privacy of personal information were moderately effective. It noted one reportable condition. The audit also concluded that DTMB's efforts to incorporate generally accepted privacy principles into the State's privacy framework were moderately effective. It noted one reportable condition.	Performance	2	0

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	In addition, the audit analyzed and provided data regarding State agencies' practices to protect the privacy of personal information. It included 7 observations and 1 exhibit related to this audit objective.			
<b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b>				
591-0150-09	Bureau of Transportation Planning  The audit concluded that the Bureau's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting was effective. It does not include any reportable conditions related to this audit objective. The audit also concluded that the Bureau's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements were effective. It noted one reportable condition.	Performance	1	0
591-0170-09	Road and Bridge Construction Project Monitoring  The audit concluded that Michigan Department of Transportation's (MDOT's) efforts to ensure that road and bridge construction projects are monitored in accordance with selected State and federal requirements were moderately effective. It noted five reportable conditions. The audit also concluded that MDOT's efforts to ensure that road and bridge construction materials testing is completed in accordance with selected State and federal requirements were effective. It does not include any reportable conditions related to this audit objective. In addition, the audit concluded that MDOT's efforts to monitor its road and bridge construction project warranties were moderately effective. It also noted one reportable condition.	Performance	5	2
591-0169-08	Bridge Inspection Program  The audit concluded that MDOT was not effective in ensuring that bridge inspections and load ratings were completed in compliance with selected State and federal requirements. It noted three material conditions and one reportable condition. The audit also concluded that MDOT was moderately effective in ensuring that bridge inspections were completed by qualified persons. It noted one reportable condition.	Performance	10	0

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
591-0210-10	Mackinac Bridge Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Mackinac Bridge 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>TREASURY, DEPARTMENT OF</b>				
271-0265-09	Emergency 9-1-1 Fund (formerly the Commercial Mobile Radio Service Emergency Telephone Fund) - R  The audit included an unqualified opinion on the Emergency 9-1-1 Fund's financial schedules. It identified significant deficiencies in internal control over financial reporting and considered one finding to contain 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> .	Financial	3	0
271-0270-10	Michigan Higher Education Facilities Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Higher Education Facilities 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
271-0271-10	Michigan Higher Education Student Loan Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Higher Education Student Loan 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

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0272-10 and 271-0272-10M	<p>Michigan Higher Education Assistance Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included unqualified opinions on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Higher Education Assistance Authority. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Higher Education Assistance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
271-0273-10	<p>Michigan Higher Education Assistance Authority - Michigan Guaranty Agency - R</p> <p>The audit included an unqualified opinion on the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency'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>.</p>	Financial	0	0
271-0275-10	<p>Michigan Public Educational Facilities Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Public Educational Facilities Authority's financial statements. It identified a significant deficiency in 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 statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered one program as a major program and included a</p>	Single	2	0

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>qualified opinion on the Authority's compliance with major federal program requirements. The audit identified known questioned costs of \$500,000. The Authority expended a total of \$3,158,710 in federal awards during the two-year period ended September 30, 2009. The audit identified significant deficiencies in internal control over federal program compliance and considered one finding to contain material weaknesses. It identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>			
271-0280-10	<p>Michigan State Hospital Finance Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan State Hospital 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>.</p>	Financial	0	0
271-0281-10 and 271-0281-10M	<p>Michigan Municipal Bond Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Municipal Bond Authority's financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Municipal Bond Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>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 statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0

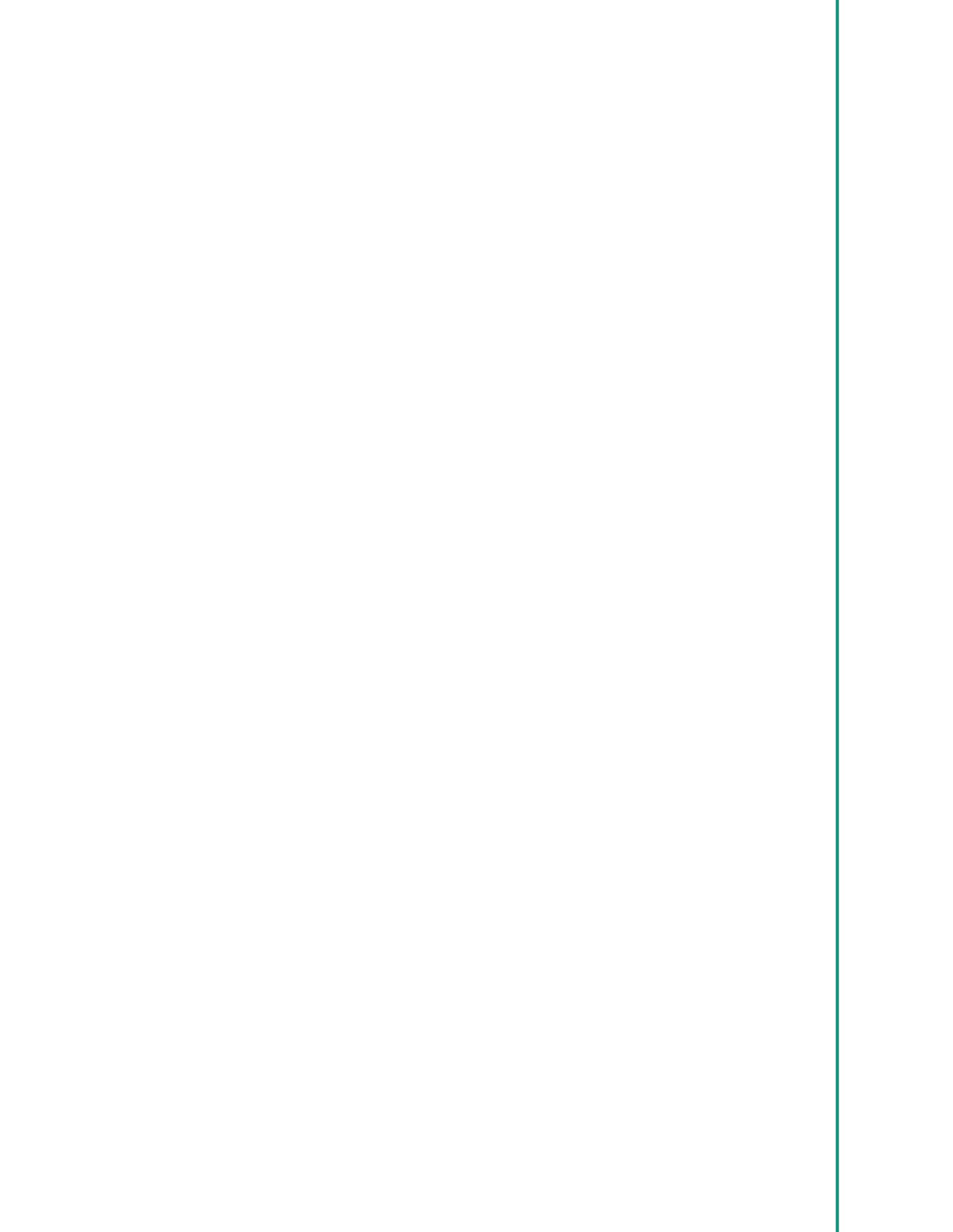
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			New	Repeated
271-0283-10	Michigan Education Trust Plan D (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. It did not report 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
271-0284-10	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. 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
271-0285-10	Michigan Tobacco Settlement Finance Authority (A Blended Component Unit of the State of Michigan) - R  The audit included unqualified opinions on the governmental activities and each major fund of 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
271-0310-09	Office of Scholarships and Grants, Student Financial Services Bureau  The audit concluded that the Office of Scholarships and Grants' efforts were moderately effective in evaluating its State-funded scholarship and grant programs. The audit noted one reportable condition.	Performance	2	0

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Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0401-10	Michigan Strategic Fund (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Strategic Fund's basic 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
271-0406-10	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. 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
271-0415-09	Michigan Economic Growth Authority Tax Credit Program  The audit concluded that the Michigan Strategic Fund's (MSF's) procedures to review requests for Michigan Economic Growth Authority (MEGA) tax credit certificates were moderately effective and MSF's procedures to audit the approved MEGA tax credit certificates were not effective. It noted one material condition and three reportable conditions. The audit also concluded that MSF's annual report to the Legislature was in compliance with 6 of 7 reporting requirements and not in compliance with 1 reporting requirement of the <i>Michigan Compiled Laws</i> . It noted one reportable condition. In addition, the audit concluded that MSF's efforts to evaluate the MEGA Tax Credit Program in creating and retaining jobs were moderately effective. It noted one reportable condition.	Performance	9	0
			<u>177</u>	<u>53</u>







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