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# ANNUAL REPORT

## Fiscal Year 2016



**Doug A. Ringler, CPA, CIA**  
**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*



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

Doug A. Ringler, CPA, CIA  
Auditor General

## Legislators and Interested Parties:

I am pleased to provide our fiscal year 2016 annual report. It details aspects of our office operations and lists the audit reports issued in the past fiscal year. Article IV, Section 53 of the Michigan Constitution establishes the Office of the Auditor General and requires this annual report.

During the fiscal year, we issued independent auditor's opinions on 26 sets of financial statements and schedules. Our collaboration with the State Budget Office resulted in the preparation and audit of the *State of Michigan Comprehensive Annual Financial Report* within 92 days of fiscal year-end, again setting the national benchmark for timely state government reporting. Our other most extensive project, the Statewide Single Audit, assessed State agency compliance with regulations tied to \$23.1 billion in federal funds.

The 40 performance audits that we completed received pointed attention for our work involving the Grand Rapids Home for Veterans, Claimant Services within the Unemployment Insurance Agency, the Child Care Fund, Adult Protective Services, and the Flint drinking water crisis, among many others.

## Our top 2017 priorities include:

1. Mechanisms for stakeholders to report suspected fraud, waste, and abuse of tax dollars to the OAG  
Recently, we decided to join 34 other state auditor offices by providing State employees and citizens with an avenue for reporting potentially fraudulent activities to our Office. We are identifying the leading practices across the country for efficient and confidential mechanisms to receive and investigate allegations and report the results. We will work closely with the Department of Attorney General or other entities to refer for prosecution any individuals who may have committed a crime.
2. Staff development  
We implemented a new mentoring process for our entry-level staff to help ensure their successful transition from academia to the workforce. We are creating a three-year curriculum to ensure that they have consistent training, diverse audit assignments, constructive feedback, and professional growth opportunities. For our management team, we are prioritizing leadership training and preparing for retirements and other attrition.

Throughout the year, we will continue to provide the Legislature and Executive Office with our six-month audit plans and monthly audit summaries. Citizens may follow our work by visiting the OAG Web site.

We are fortunate to have an incredible team of audit professionals and support staff within the OAG to deliver oversight in an independent, objective, and transparent manner. We welcome the opportunity to provide this information to assist in your decision making. I look forward to working with you this year.

Sincerely,

Doug Ringler  
Auditor General  
November 4, 2016



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## Management Staff

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Doug A. Ringler, CPA, CIA  
Auditor General



Laura J. Hirst, CPA  
Deputy Auditor General



Kelly C. Miller, MPA  
State Relations Officer



Bryan W. Weiler  
Chief Investigator



Craig M. Murray, CPA, CIA  
Director of Professional Practice



Kimberly E. Jacobs, CPA, CISA, CNE  
Chief Information Officer



Paul J. Green, CPA, CIA, CISA  
Director of Administration





## Mission

The OAG's mission is to improve the accountability for public funds and to improve State government operations for the benefit of Michigan's citizens. The OAG best accomplishes its mission by adhering to the professional standards of the auditing profession and by promoting an atmosphere of independence, objectivity, and transparency among OAG staff and the people we serve.

## Responsibility

The Michigan Constitution established the OAG within the legislative branch of State government and set forth its responsibility to conduct post financial and performance audits of State government operations (Article IV, Section 53). 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

Doug A. Ringler, the Auditor General, is the principal executive and has ultimate responsibility for OAG policies, practices, and reports. The Auditor General is appointed by the Legislature for an eight-year term. His term began in June 2014.

The Auditor General appointed Laura J. Hirst as Deputy Auditor General. Ms. Hirst is the Auditor General's principal aide in carrying out the OAG's responsibilities and in leading the Bureau of Audit Operations.

The OAG has five primary operational areas:

- The **Bureau of Audit Operations** is responsible for conducting the audits of the State of Michigan's executive, legislative, and judicial branches of government, including its universities and community colleges. The Bureau also considers legislative requests. In addition, the Bureau participates in joint National State Auditors Association audits with other states' audit agencies.

The Bureau is organized into five audit divisions based on type of audits performed and activities audited:

- The *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* financial audit, other mandated financial audits, and Government Operations audits.
- The Statewide Single Audit.
- Environmental and Information Technology performance audits.
- Health, Safety, and Regulatory performance audits.
- Service, Assistance, and Education performance audits.
- The **Office of Professional Practice** is responsible for performing quality assurance reviews of audit reports and working papers, editing audit reports, and conducting accounting and auditing research.
- The **Office of Information Technology** is responsible for all OAG networks and information systems. The Office provides specialized data extraction and analysis, computer hardware and software support, and training 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.
- The **Chief Investigator** is responsible for investigative audits related to allegations of fraud, waste, or abuse of taxpayer dollars. The Chief Investigator will also work with prosecutorial agencies and provide counsel to OAG staff on fraud-related issues.



## Employees

The OAG had 160 employees as of September 30, 2016. The OAG's commitment to professionalism and leadership in State governmental auditing is evidenced by the professional certifications achieved by its staff. Including the Auditor General, the office has:

- 61 certified public accountants
- 15 certified information systems auditors
- 3 certified internal auditors
- 2 certified fraud examiners
- 2 certified government financial managers
- 22 employees with master's degrees

Many employees also actively participate as officers, board members, and committee members of national, State, and local accounting and auditing organizations.

## Quality Control

### Professional Standards

The OAG performs audits 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.

### External Quality Control Review

*Government Auditing Standards* requires a triennial peer review of OAG operations. The peer review is performed by a six-person National State Auditors Association external quality control review team. In the most recent review performed in October 2015, the peer review team provided the OAG with its tenth consecutive unmodified ("clean") opinion on its system of quality control. This is the highest level of opinion.

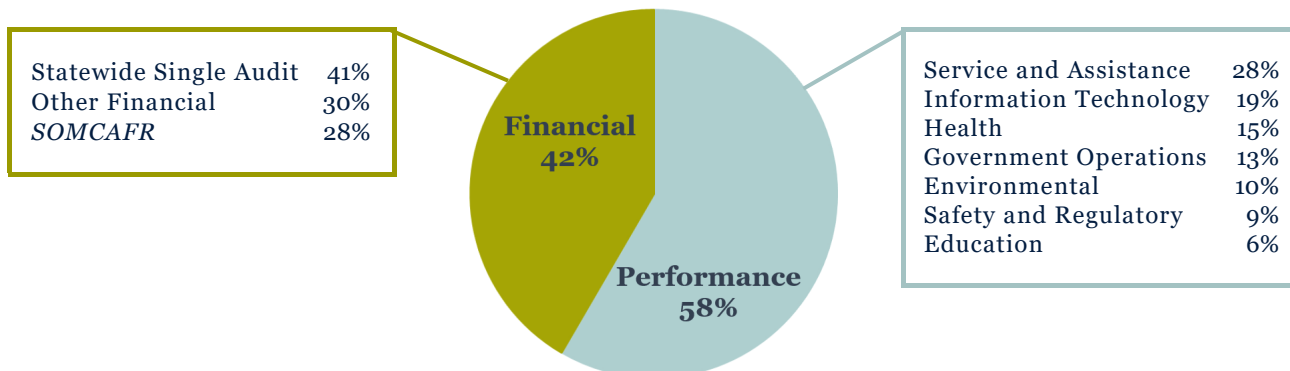
### Independence

Auditing standards require auditor independence in fact and in appearance. The standards also define impairments to independence. The most recent external peer review of OAG operations noted no impairments affecting the OAG's independence in providing auditing and other attestation services.

## Types of Audits and Other Projects

The following chart shows the distribution of direct audit and other project hours by type:

**Distribution of Direct Hours**



### 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.

- *State of Michigan Comprehensive Annual Financial Report (SOMCAFR) Audit*

The *SOMCAFR* is an annual report prepared by the Office of Financial Management, within the State Budget Office.

The *SOMCAFR* includes the State's 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. The State's reporting entity includes the primary government (all funds, departments and agencies, bureaus, boards, and commissions) and its component units.

The OAG audits and issues an independent auditor's opinion on the financial statements, which is included within the published *SOMCAFR*.

- **Statewide Single Audit**

This annual audit is required by the federal Single Audit Act and by State statute. The federal Single Audit Act required 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 OAG annually audits those State programs that reach major federal program status. The State's single audit report, including the Auditor General's report on compliance, is required to be submitted to the federal government by June 30 each year for the previous fiscal year ended September 30.

### **Statewide Single Audit Results**

|                          |           |
|--------------------------|-----------|
| <b>Findings:</b>         |           |
| Significant deficiencies | 55        |
| Material weaknesses      | 16        |
| Total findings           | <u>71</u> |
| <b>Recommendations:</b>  |           |
| New                      | 30        |
| Repeat and rewritten     | 42        |
| Total recommendations    | <u>72</u> |

- **Other Financial Audits**

For fiscal year 2016, we conducted 24 other required financial audits and contracted for the completion of 15 financial audits. State statute requires annual financial audits of certain entities.

### Performance Audits

Performance audits compare criteria applicable to the audited entity with the activities that occurred. Findings and/or conclusions provide objective and independent analyses to program

management and those charged with governance and oversight to facilitate decision making and improve public accountability. We conduct performance audits based on the potential for improving the effectiveness and efficiency of State government operations.

#### Audit Finding Follow-Ups

The OAG may follow up findings reported in a previously issued performance audit report to assess the entities' compliance with prior audit recommendations. Follow-ups typically focus on material conditions, which are considered more severe than reportable conditions. We may issue recommendations if corrective action was not effective at fostering improvements.

| <b>Performance Audits and Follow-Ups</b> |     |
|--|-----|
| Number of issued reports                 | 40  |
| Findings:                                |     |
| Reportable conditions                    | 104 |
| Material conditions                      | 19  |
| Total findings                           | 123 |
| Recommendations:                         |     |
| New                                      | 98  |
| Repeat and rewritten                     | 39  |
| Total recommendations                    | 137 |

#### Preliminary Survey Summaries

A preliminary survey summary is a publicly released document in a report-like format that addresses only the results of a preliminary survey. A preliminary survey, performed at the beginning of a performance audit, is designed to obtain an understanding of the core activities within an entity or a program. These procedures are limited and are not considered a completed performance audit.

If the results of a preliminary survey do not identify significant potential program improvements and/or risks of deficiencies that could impair management's ability to operate a program effectively or efficiently, we terminate the performance audit and move our resources to a more value-driven project. For fiscal year 2016, we issued 4 preliminary survey summaries.

#### 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 matters or subjects.

### **Report Distribution, Response, and Value**

#### Report Distribution

We provide electronic access to all of our released reports. They are most often addressed to the chief executive officer of the audited entity and/or to the chair of its governing board or commission. On the day prior to a report's official release, we notify the audited entity, the Executive Office, and all legislators.

On the official release date, our office posts the report publicly to the OAG Web site and e-mails a report link to all legislators; the House and Senate Fiscal Agencies; other State offices; and all others who have requested a copy of the report, including any media. Our office does not issue news releases, but we do respond to media or public inquiries regarding released reports.

#### Auditee Response

Audited agencies are required to develop a plan to comply with OAG audit recommendations and to submit the plan to the Office of Internal Audit Services, State Budget Office, within 60 days after release of the OAG audit report. This requirement is found in Section 18.1462 of the *Michigan Compiled Laws* and in the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100).

The Office of Internal Audit Services either accepts the plan as final or contacts the agency to take additional steps to finalize it. The OAG Web site includes the agency's plan to comply following each OAG audit report.

#### Audit Value

OAG reports provide independent, objective, and transparent information that legislative members can use in making informed decisions regarding program scope, structure, and funding. Investors and creditors can rely on OAG financial reports to assess the State's financial condition. In addition, our work offers citizens information about the oversight and accountability of taxes, fees, and other revenues paid to the State and whether those dollars are spent in accordance with statutes and guidelines.

## Communication Types

### Reports

OAG audit reports are the formal, written, and primary means of communicating audit results. The reports and other communications foster positive and productive working relationships with the Legislature, audited agencies, citizens, and other stakeholders.

### Monthly Summaries

The Auditor General e-mails a monthly summary to all legislators and the Governor which identifies projects that the OAG initiated during the prior month; any audits terminated; audit objectives established for ongoing projects; projects nearing completion, including estimated release dates; and audits released.

### Legislative Hearings and Meetings

The OAG welcomes the opportunity to brief committees and meet personally with legislators to provide audit report testimony, discuss specific issues identified within audit reports, respond to requests for our audit services, or provide information related to government operations to assist in their decision making.

### State Relations Officer

The OAG State Relations Officer's primary responsibility is to build effective relationships and to facilitate communications with the Legislature, legislative fiscal agencies, the Executive Office, audited agencies, and the media. These communications include addressing questions about OAG operations and reports, facilitating requests for audit work, and coordinating report presentations to the Legislature upon request.

### On-Line Information

OAG reports are released via e-mail, twitter, and LinkedIn. Our recently updated Web site, [www.audgen.michigan.gov](http://www.audgen.michigan.gov), provides extensive information, including:

- Completed projects by fiscal year
- Recently released reports
- Reports scheduled for release
- Work in progress
- Monthly summaries to the Legislature and the Governor
- Auditing FAQ
- Types of audits performed
- Professional standards
- OAG organizational chart
- Office location
- Contact information

## Completed Audit, Letter, and Follow-Up Reports

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### Agriculture and Rural Development

#### Legislative Request:

- Michigan Agriculture Environmental Assurance Program - Letter to Senator Green

#### Contracted Audit:

- Farm Produce Insurance Authority Financial Report for the Fiscal Year Ended December 31, 2015

### Corrections

#### Performance Audits:

- Bellamy Creek Correctional Facility, 471-0208-15
- Oaks Correctional Facility, 471-0222-15
- Prisoner Transportation, 471-0390-15
- Substance Abuse Services, 471-0360-15
- Trust Accounting and Payroll System, 471-0526-15

#### Preliminary Survey Summary:

- Prisoner Food Services, 471-0621-15

### Education

#### Performance Audit:

- Office of Professional Preparation Services, 313-0140-10F

### Environmental Quality

#### Legislative Requests:

- City of Flint Water - Letter and Follow-Up Letter to Senator Ananich

#### Performance Audits:

- Community and Noncommunity Water Supplies, 761-0320-15
- Medical Waste, Scrap Tire, and Solid Waste Programs, 761-0330-15

### Health and Human Services

#### Performance Audits:

- Adult Protective Services, 431-2601-13F
- Child Care Fund, 431-1400-13
- Children's Special Health Care Services, 391-0724-15
- Home Health Services, 391-0700-15
- Youth Transitioning From Foster Care to Self-Sufficiency, 431-0279-11F

**Legislature**Financial Audit:

- Michigan Legislative Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 900-0140-16

**Licensing and Regulatory Affairs**Financial Audits:

- Michigan Liquor Control Commission Annual Financial Report 2015 (For Fiscal Year October 1, 2014 - September 30, 2015), 641-0161-16
- Michigan Self-Insurers' Security Fund Annual Report 2015, 641-0101-16

Performance Audits:

- Adult Foster Care and Camps Licensing Division, 431-5115-14F
- Michigan Occupational Safety and Health Administration, 641-0440-15

Preliminary Survey Summary:

- Wage and Hour Program, 641-0442-16

**Military and Veterans Affairs**Performance Audits:

- Construction and Facilities Management Office, 511-0200-15
- D.J. Jacobetti Home for Veterans, 511-0160-16
- Grand Rapids Home for Veterans, 511-0170-15

**Natural Resources**Performance Audits:

- Central Reservation System for Recreational Resources, 751-0591-16
- Commercial Forest Program and Forest Development Fund, 751-0152-15

**State**Performance Audit:

- Licensing and Regulating of Automotive-Related Businesses and Mechanics, 231-0701-15

**State Police**Financial Audit:

- Michigan Justice Training Fund - Financial Audit Including Report on Internal Control, Compliance, and Other Matters, 551-0101-16

Performance Audits:

- Commercial Vehicle Enforcement Division, 551-0144-15
- Law Enforcement Information Network, 551-0597-15

Preliminary Survey Summary:

- Special Operations Division, 551-0142-16



## Talent and Economic Development

### Performance Audits:

- Claimant Services, Unemployment Insurance Agency, 641-0318-14
- Michigan Integrated Data Automated System (MiDAS), 641-0593-15

### Contracted Audits:

- Michigan State Housing Development Authority Financial Report for the Year Ended June 30, 2015
- Michigan State Housing Development Authority Single Audit for the Year Ended June 30, 2015
- Unemployment Insurance Agency - Administration Fund - Financial Report for the Fiscal Year Ended September 30, 2015
- Unemployment Insurance Agency - Administration Fund - Single Audit Report for the Fiscal Year Ended September 30, 2015
- Unemployment Insurance Agency - Contingent Fund - Financial Report for the Fiscal Year Ended September 30, 2015
- Unemployment Insurance Agency - Obligation Trust Fund - Financial Report for the Fiscal Year Ended September 30, 2015
- Unemployment Insurance Agency - Unemployment Compensation Fund - Financial Report for the Fiscal Year Ended September 30, 2015
- Unemployment Insurance Agency - Unemployment Compensation Fund - Single Audit Report for the Fiscal Year Ended September 30, 2015

## Technology, Management, and Budget

### Financial Audits:

- Michigan Judges' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 071-0153-16
- Michigan Public School Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 071-0152-16
- Michigan Public School Employees' Retirement System Schedules of Employer Allocations and Schedule of Collective Pension Amounts for Fiscal Year Ended September 30, 2015, 071-0164-16
- Michigan Public School Employees' Retirement System Schedules of Employer Allocations and Schedule of Collective Pension Amounts for Fiscal Year Ended September 30, 2014, 071-0164-15
- Michigan State Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 071-0151-16
- Michigan State Employees' Retirement System Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Fiscal Year Ended September 30, 2015, 071-0165-16
- Michigan State Employees' Retirement System Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Fiscal Year Ended September 30, 2014, 071-0164-15
- Michigan State Police Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 071-0154-16
- State of Michigan 401K Plan - Financial Report - September 30, 2015, 071-0156-16
- State of Michigan 457 Plan - Financial Report - September 30, 2015, 071-0157-16

Financial Audits, continued:

- State of Michigan Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 071-0010-16
- State of Michigan Single Audit Report for the Fiscal Year Ended September 30, 2015, 000-0100-16
- Statement of the Proportion of Total State Spending From State Sources Paid to Units of Local Government - Legal Basis - Fiscal Year Ended September 30, 2015, 071-0031-16
- Statement of Revenue Subject to Constitutional Limitation - Legal Basis - Fiscal Year Ended September 30, 2015, 071-0030-16

Performance Audits:

- Clarety, 071-0521-15
- Flint Emergency Expenditures, State of Michigan, 000-2016-16
- Physical Security and Environmental Controls Over Information Technology Resources, 071-0500-15
- Real Estate Division, 071-0126-15
- Statewide UNIX Security Controls, 071-0563-15
- Workers' Compensation and Long Term Disability Programs for State of Michigan Employees, 071-0141-14

Contracted Audits:

- State Building Authority Financial Report for the Fiscal Year Ended September 30, 2015
- State Sponsored Group Insurance Fund Financial Report for the Fiscal Year Ended September 30, 2015

**Transportation**Performance Audits:

- Monitoring of Warranties and Road and Bridge Construction Projects, 591-0210-14F
- Office of Business Development, 591-0350-15
- Office of Passenger Transportation, 591-0180-15
- Office of Rail, 591-0195-14F
- Traffic and Safety Section, 591-0162-15
- Use of Transportation-Related Funding, 591-0105-16

Preliminary Survey Summary:

- Selected Road and Bridge Construction Project Management Activities, 591-0360-16

Contracted Audit:

- Mackinac Bridge Authority Financial Report for the Fiscal Year Ended September 30, 2015

## Treasury

### Financial Audits:

- Michigan Economic Development Corporation Annual Report for the Fiscal Year Ended September 30, 2015, 271-0406-16
- Michigan Education Trust 2014-2015 Annual Report - Contract Plans B & C, 271-0284-16
- Michigan Education Trust 2014-2015 Annual Report - Contract Plan D, 271-0283-16
- Michigan Finance Authority Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015, 271-0340-16
- Michigan Strategic Fund Annual Report for the Fiscal Year Ended September 30, 2015, 271-0401-16
- Transition in the Office of State Treasurer, 271-0256-15

### Performance Audits:

- Corporate Income Tax and Michigan Business Tax, 271-0240-15
- Investment-Related Systems, 271-0585-15

### Contracted Audits:

- Bureau of State Lottery Comprehensive Annual Financial Report for the Fiscal Years Ended September 30, 2015 and 2014
- Bureau of State Lottery Financial Report for the Six-Month Periods Ended March 31, 2016 and 2015
- Michigan Education Savings Program Financial Report for the Fiscal Year Ended September 30, 2015

## Universities and Colleges

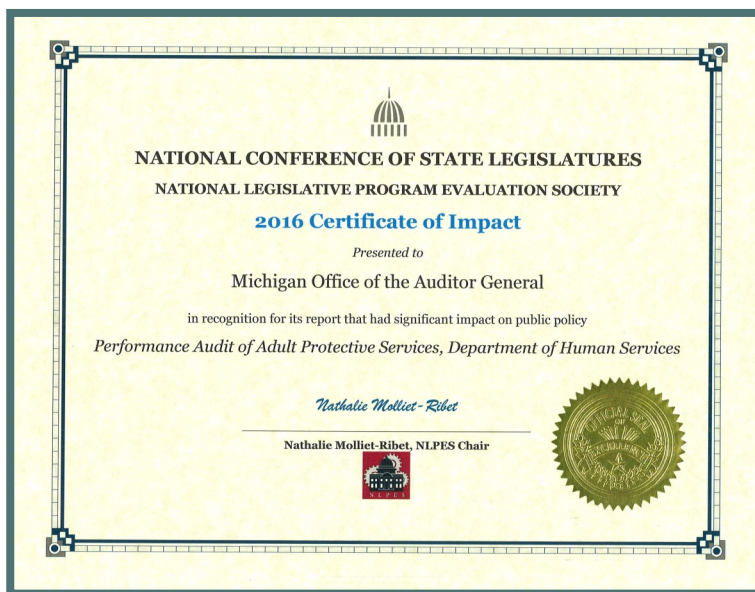
### Performance Audit:

- State Public Universities' Reporting of Selected Higher Education Institutional Data Inventory (HEIDI) Data, 331-0300-16

## Awards, Honors, and Recognition

### 2016 National Legislative Program Evaluation Society (NLPES) Impact Award

The OAG received a 2016 NLPES Certificate of Impact for the performance audit of Adult Protective Services, Michigan Department of Health and Human Services, issued in July 2014. The audit team consisted of Justin Londo, Audit Supervisor; Nathan Klein and Caitlin Hengesbach, staff auditors; Melinda Hamilton, Audit Division Administrator; and Yvonne Benn, Audit Manager.



The NLPES Impact Award winners from l to r: Yvonne Benn, Justin Londo, Nathan Klein, and Melinda Hamilton. Missing from the photo is former employee Caitlin Hengesbach.



