

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF CORRECTIONS

October 1, 1999 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Report Number:
 47-100-02

*Including the Provisions of the Single Audit Act
 October 1, 1999 through September 30, 2001*

Department of Corrections (DOC)

Released:
 June 2002

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on DOC's financial schedules.

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Internal Control Over Financial Reporting

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 and 2).

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**Noncompliance Material to
 the Financial Schedules**

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 4 programs as major programs and issued 2 unqualified opinions and 2 qualified opinions. The types of opinions issued by federal program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over major programs (Findings 3 and 4).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 3 and 4).

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Systems of Accounting and Internal Control:

We determined that DOC was in substantial compliance with Sections

18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Unqualified
16.593	Residential Substance Abuse Treatment for State Prisoners	Qualified
16.606	State Criminal Alien Assistance Program	Unqualified
84.002	Adult Education - State Grant Program	Qualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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June 13, 2002

Mr. William S. Overton, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. Overton:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 1999 through September 30, 2001.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DOC financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains DOC's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Independent Auditor's Report on
the Financial Schedules

February 22, 2002

Mr. William S. Overton, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. Overton:

We have audited the accompanying schedule of General Fund revenue and transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Corrections for the fiscal years ended September 30, 2001 and September 30, 2000. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for the Department of Correction's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and transfers and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 2001 and September 30, 2000, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2002 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedules of sources and disposition of General Fund authorizations by appropriation unit, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

DEPARTMENT OF CORRECTIONS
Schedule of General Fund Revenue and Transfers
Fiscal Years Ended September 30

REVENUE	<u>2001</u>	<u>2000</u>
Federal agencies	\$ 21,031,280	\$ 18,699,860
Local agencies	407,189	160,038
Services:		
Resident stores	3,171,500	2,869,300
Public Works Program reimbursements	564,700	561,861
Other	246,960	153,430
Miscellaneous:		
Telephone fees and commissions	13,158,715	12,511,200
Oversight fees	7,350,918	7,530,170
Tether Program contributions	4,396,649	4,425,088
Community Residential Program fees	1,919,760	2,403,854
Other	<u>1,598,403</u>	<u>1,729,407</u>
Total Revenue	<u>\$ 53,846,074</u>	<u>\$ 51,044,209</u>
 TRANSFERS		
From Correctional Industries Revolving Fund	<u>\$</u>	<u>\$ 89,600</u>
Total Transfers	<u>\$ 0</u>	<u>\$ 89,600</u>
 Total Revenue and Transfers	 <u>\$ 53,846,074</u>	 <u>\$ 51,133,809</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

SOURCES OF AUTHORIZATIONS (Note 2)	<u>2001</u>	<u>2000</u>
General purpose appropriations	\$ 1,619,600,500	\$ 1,482,956,300
Balances carried forward	49,692,303	58,361,678
Restricted financing sources	57,146,749	54,781,189
Less: Intrafund expenditure reimbursements	<u>(4,656,327)</u>	<u>(4,783,994)</u>
Total	<u>\$ 1,721,783,225</u>	<u>\$ 1,591,315,173</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	\$ 1,662,984,472	\$ 1,544,128,384
Less: Intrafund expenditure reimbursements	<u>(4,656,327)</u>	<u>(4,783,994)</u>
Net expenditures and transfers	<u>\$ 1,658,328,145</u>	<u>\$ 1,539,344,390</u>
Balances carried forward:		
Multi-year projects	\$ 23,542,597	\$ 20,586,749
Encumbrances	29,229,774	26,118,322
Restricted revenue - not authorized	<u>3,085,134</u>	<u>2,987,232</u>
Total balances carried forward	<u>\$ 55,857,505</u>	<u>\$ 49,692,303</u>
Balances lapsed	<u>\$ 7,597,575</u>	<u>\$ 2,278,480</u>
Total	<u>\$ 1,721,783,225</u>	<u>\$ 1,591,315,173</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC) for the fiscal years ended September 30, 2001 and September 30, 2000. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, which are audited separately and do not receive any federal assistance.

The notes accompanying these financial schedules relate directly to DOC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Pension Benefits and Other Postemployment Benefits; Compensated Absences; Leases; and Interfund Receivables and Payables.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and transfers and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DOC or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- d. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- e. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. DOC collected \$2.3 million and \$2.0 million to finance its food service operations in fiscal years 2000-01 and 1999-2000, respectively. Also, DOC is a subrecipient of certain

federal programs from the Department of Community Health. In accordance with State accounting policy, the Department of Community Health records the federal revenue and expenditures for these programs. DOC is reimbursed for its costs through an expenditure credit. The expenditure credits recorded for fiscal years 2000-01 and 1999-2000 were \$2,383,972 and \$1,792,855, respectively.

- f. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Significant carry-forwards of this type were \$8.7 million and \$6.4 million for leased beds and alternatives to leased beds in fiscal years 2000-01 and 1999-2000, respectively. The work projects provided authorization for the custody, treatment, clinical, transportation, and administrative costs associated with the housing of prisoners during periods of facility overcrowding. Other significant carry-forwards included \$2.5 million and \$3.5 million for local facility expansions for fiscal years 2000-01 and 1999-2000, respectively; \$3.1 million for new employee training for the new facility for fiscal year 2000-01; \$3.9 million for substance abuse pilot programs for fiscal year 1999-2000; \$3.3 million for redesign of DOC's computer system for fiscal year 1999-2000; and \$8.9 million for the opening of a new correctional facility (delayed until fiscal year 2001-02) for fiscal year 2000-01.
- g. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- h. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, DOC had not received legislative authorization to expend the revenue. Section 791.225a of the *Michigan Compiled Laws* restricts 20% of parolee and probationary supervision fees for administrative and enhanced services costs. Enhanced services include, but are not limited to, the purchase of services for parolees, such as counseling, employment training, employment placement, or education; public transportation expenses related to training, counseling, or employment; enhancement of staff

performance through specialized training and equipment purchase; and purchase of items for parolee employment. The restricted revenue - not authorized represents the unexpended balance of this money.

- i. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Contingencies

DOC accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. The ultimate dispositions and consequences of the proceedings are not presently determinable, but such ultimate dispositions or consequences should not, in the opinion of DOC, have a material adverse effect on DOC's financial position.

Case Name: *Maxim Graham, et al v Larry Ford and Michigan Department of Corrections*

Case Number: Ionia CC 96-S-17488-NO

Judge: The Honorable David A. Hoort

Four employees alleged Elliot-Larsen Civil Rights Act workplace discrimination in the form of hostile work environment based on race and racial association. Plaintiffs' respective spouses sought loss of consortium damages. On May 18, 2001, a jury awarded separate verdicts in favor of the four employees and their spouses, totaling \$3,121,830. DOC immediately requested that the Department of Attorney General vigorously seek an appeal of the verdict as well as seek remittitur of the amount of damages awarded. DOC established a payable for \$2,000,000 for fiscal year 2001-02 toward payment of the verdict pending DOC's appeal. Depending upon the outcome of the appeal and the timeliness of the Court's decision, full payment could be from \$4 to \$6 million taking into account interest from the date of filing the complaint (June 7, 1996), costs, and mediation sanctions.

SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2001

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 9,203,600	\$ 122,000	\$ 1,454	\$ 16,935,603	\$ 26,262,656
Administration and Programs	40,815,700	5,902,000	1,443,551	1,583,093	49,744,345
Central Support Accounts	16,060,400	4,140,000	1,031,443		21,231,843
Training, Community Support, and Substance Abuse Programs	26,732,800	1,700,000	10,373,904	2,305,467	41,112,171
Field Operations	99,318,000	3,875,000	3,406,722	7,350,918	113,950,640
Community Placement	31,437,400	2,455,000	1,463,399	6,769,918	42,125,717
Special Alternative Incarceration Program	10,014,300		608,468	78,342	10,701,110
Office of Community Corrections	34,253,900	(1,585,000)	4,138,395	13,158,715	49,966,010
Consent Decrees	108,593,900	(41,714,900)	1,571,203		68,450,203
Office of Health Care	48,218,000	565,000	817,030	78,506	49,678,536
Clinical Operations	91,784,600	(565,000)	608,861		91,828,461
Correctional Facilities - Administration	39,584,300	(1,465,000)	10,063,707	818,742	49,001,749
Subtotal for Central Administration	<u>\$ 556,016,900</u>	<u>\$ (26,570,900)</u>	<u>\$ 35,528,137</u>	<u>\$ 49,079,305</u>	<u>\$ 614,053,442</u>
Facility Operations					
Alger Maximum Security Correctional Facility - Munising	\$ 27,587,400	\$	\$ 20,472	\$ 48,771	\$ 27,656,642
Baraga Maximum Correctional Facility - Baraga	31,134,800	100,000	111,798	99,535	31,446,132
Bellamy Creek Correctional Facility - Ionia	8,987,700				8,987,700
E.C. Brooks Correctional Facility - Muskegon	38,914,400	(100,000)	97,050	150,812	39,062,263
Carson City Correctional Facility - Carson City	40,745,800	(300,000)	629,160	143,636	41,218,596
Chippewa Correctional Facility - Kincheloe	42,018,500	135,000	1,258,300	209,252	43,621,053
Cooper Street Correctional Facility - Jackson	21,456,000	(650,000)	333,364	143,549	21,282,913
G. Robert Cotton Correctional Facility - Jackson	34,320,200	(1,025,000)	471,939	277,235	34,044,374
Florence Crane Correctional Facility - Coldwater	29,619,700	(1,765,000)	386,109	142,895	28,383,704
Charles E. Egeler Correctional Facility - Jackson	20,319,100	13,764,400	31,574	80,444	34,195,517
Richard A. Handlon Michigan Training Unit - Ionia	20,956,800	410,000	269,826	78,081	21,714,707
Gus Harrison Correctional Facility - Adrian	39,507,400	(168,000)	67,307	278,775	39,685,483
Huron Valley Men's Facility - Ypsilanti	21,269,400	4,065,000	523,136	29,769	25,887,305
Ionia Maximum Correctional Facility - Ionia	26,503,800	(1,218,000)	231,214	19,757	25,536,772
Ionia Temporary Correctional Facility - Ionia	16,324,600	(530,000)	125,979	99,130	16,019,709
Jackson Maximum Correctional Facility - Jackson	41,778,400	(2,300,000)	506,126	1,924,387	41,908,914
Kinross Correctional Facility - Kincheloe	44,209,000	330,000	162,877	227,412	44,929,289
Lakeland Correctional Facility - Coldwater	21,053,200	695,000	290,602	102,212	22,141,014
Macomb Correctional Facility - New Haven	24,579,200		55,149	119,709	24,754,058
Marquette Branch Prison - Marquette	36,538,700	932,000	804,408	117,242	38,392,350
Michigan Reformatory - Ionia	32,271,800	3,064,000	1,683,918	84,852	37,104,569
Mound Correctional Facility - Detroit	24,346,400	980,000	14,739	84,545	25,425,684
Muskegon Correctional Facility - Muskegon	24,380,300	(650,000)	201,765	77,541	24,009,606
Newberry Correctional Facility - Newberry	25,433,100		347,711	106,981	25,887,793
Oaks Correctional Facility - Eastlake	30,722,900	(930,000)	411,049	53,681	30,257,630
Ojibway Correctional Facility - Marenisco	15,948,300			32,150	15,980,450
Parnall Correctional Facility - Jackson	22,249,100	(1,395,000)	246,588	118,046	21,218,734
Pine River Correctional Facility - St. Louis	16,196,500	(600,000)	45,699	73,688	15,715,887
Pugsley Correctional Facility - Kingsley	14,590,200	(1,700,000)		40,781	12,930,981
Riverside Correctional Facility - Ionia	26,456,900	9,916,600	1,787,062	61,336	38,221,898
Ryan Correctional Facility - Detroit	25,063,700	800,000	19,443	89,837	25,972,980
Saginaw Correctional Facility - Freeland	25,360,900	(544,000)	294,926	97,350	25,209,175
Scott Correctional Facility - Plymouth	24,166,300	(10,000)	35,131	77,025	24,268,456
Southern Michigan Correctional Facility - Jackson	30,485,700	(950,000)	212,152	68,603	29,816,455
St. Louis Correctional Facility - St. Louis	43,372,400	(335,000)	177,542	155,389	43,370,330
Standish Maximum Correctional Facility - Standish	29,125,200	230,000		59,352	29,414,552
State Prison of Southern Michigan - Jackson		3,842,300	241,975		4,084,275
Thumb Correctional Facility - Lapeer	25,172,300	320,000	325,273	143,380	25,960,954
Western Wayne Correctional Facility - Plymouth	26,100,900	(187,000)	83,226	77,950	26,075,076
Jackson Area Support and Services	14,316,600	2,343,600	604,023	2,272,354	19,536,576
Correction Camps			1,055,557		1,055,557
Subtotal for Facility Operations	<u>\$ 1,063,583,600</u>	<u>\$ 26,570,900</u>	<u>\$ 14,164,166</u>	<u>\$ 8,067,444</u>	<u>\$ 1,112,386,110</u>
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (4,656,327)	\$ (4,656,327)
Total	<u>\$ 1,619,600,500</u>	<u>\$ 0</u>	<u>\$ 49,692,303</u>	<u>\$ 52,490,422</u>	<u>\$ 1,721,783,225</u>

Disposition of Authorizations

Expenditures and Transfers	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Total
\$ 26,211,606	\$	\$ 41,163	\$	\$ 9,888	\$ 26,262,656
46,257,773	2,460,245	948,975		77,351	49,744,345
20,805,920		386,428		39,495	21,231,843
33,224,638	3,103,451	997,643		3,786,440	41,112,171
110,172,019		622,219	3,085,134	71,268	113,950,640
40,497,316		1,604,119		24,282	42,125,717
9,556,944		1,143,997		170	10,701,110
46,349,952	2,500,000	225,365		890,693	49,966,010
65,493,370		2,931,764		25,069	68,450,203
48,564,374		1,103,074		11,089	49,678,536
89,323,264		2,425,386		79,812	91,828,461
<u>39,263,345</u>	<u>6,388,412</u>	<u>1,751,300</u>		<u>1,598,692</u>	<u>49,001,749</u>
<u>\$ 575,720,519</u>	<u>\$ 14,452,109</u>	<u>\$ 14,181,432</u>	<u>\$ 3,085,134</u>	<u>\$ 6,614,248</u>	<u>\$ 614,053,442</u>
\$ 27,514,003	\$	\$ 134,728	\$	\$ 7,912	\$ 27,656,642
31,358,760		78,690		8,683	31,446,132
71,722	8,915,978				8,987,700
38,606,947		443,815		11,501	39,062,263
40,521,342		692,369		4,885	41,218,596
42,205,197		1,407,685		8,171	43,621,053
20,715,464		523,366		44,084	21,282,913
33,583,575		429,622		31,177	34,044,374
27,932,486		447,615		3,603	28,383,704
33,906,241		247,812		41,464	34,195,517
21,490,207	28,940	183,429		12,132	21,714,707
39,456,325		207,500		21,657	39,685,483
25,144,818		695,704		46,784	25,887,305
24,889,662	575	612,771		33,764	25,536,772
15,678,373	31,113	300,799		9,424	16,019,709
41,393,410		476,511		38,993	41,908,914
44,908,219		17,476		3,594	44,929,289
21,974,835		130,834		35,345	22,141,014
24,422,873		325,167		6,018	24,754,058
37,792,633		577,280		22,436	38,392,350
35,376,006	19,852	1,701,370		7,341	37,104,569
25,377,650		6,897		41,136	25,425,684
23,733,454		262,706		13,445	24,009,606
25,649,568		227,735		10,490	25,887,793
30,005,672		201,590		50,368	30,257,630
15,907,334		72,926		190	15,980,450
21,139,350		43,245		36,139	21,218,734
15,475,692		227,471		12,723	15,715,887
12,929,341				1,640	12,930,981
36,011,104	94,031	2,101,755		15,009	38,221,898
25,954,169		17,862		948	25,972,980
25,063,565		126,774		18,837	25,209,175
24,157,583		89,975		20,898	24,268,456
29,390,814		389,628		36,013	29,816,455
43,347,451		18,799		4,080	43,370,330
29,295,823		118,712		16	29,414,552
3,841,373		81,275		161,627	4,084,275
25,840,077		110,730		10,147	25,960,954
25,979,067		52,217		43,791	26,075,076
18,597,706		862,100		76,771	19,536,576
<u>624,061</u>		<u>401,404</u>		<u>30,092</u>	<u>1,055,557</u>
<u>\$ 1,087,263,954</u>	<u>\$ 9,090,488</u>	<u>\$ 15,048,342</u>	<u>\$ 0</u>	<u>\$ 983,326</u>	<u>\$ 1,112,386,110</u>
<u>\$ (4,656,327)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (4,656,327)</u>
<u>\$ 1,658,328,145</u>	<u>\$ 23,542,597</u>	<u>\$ 29,229,774</u>	<u>\$ 3,085,134</u>	<u>\$ 7,597,575</u>	<u>\$ 1,721,783,225</u>

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2000

Appropriation Unit	Sources of Authorizations				Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	
Central Administration					
Executive	\$ 8,409,000	\$ (94,300)	\$ 17,063	\$	\$ 8,331,763
Administration and Programs	22,869,300	6,067,200	968,069	1,714,916	31,619,485
Central Support Accounts	18,389,400	2,117,100	887,146		21,393,646
Training, Community Support, and Substance Abuse Programs	37,501,100	2,928,900	9,597,292	2,442,381	52,469,673
Field Operations	95,459,500	3,290,000	2,823,314	7,530,170	109,102,984
Community Placement	29,696,500	2,614,100	623,631	7,293,946	40,228,177
Special Alternative Incarceration Program	9,278,500	(575,000)	341,743	63,611	9,108,854
Office of Community Corrections	31,212,300	2,923,600	6,810,580	12,511,200	53,457,680
Consent Decrees	104,502,300	(39,895,200)	617,895		65,224,995
Office of Health Care	43,320,900	775,000	705,189	77,948	44,879,037
Clinical Operations	76,750,200	1,585,000	647,333		78,982,533
Correctional Facilities - Administration	16,844,100	3,332,400	25,306,513	3,054,968	48,537,981
Subtotal for Central Administration	<u>\$ 494,233,100</u>	<u>\$(14,931,200)</u>	<u>\$ 49,345,768</u>	<u>\$ 34,689,140</u>	<u>\$ 563,336,808</u>
Facility Operations					
Alger Maximum Security Correctional Facility - Munising	\$ 22,216,900	\$ (625,000)	\$ 8,188	\$ 15,131	\$ 21,615,219
Baraga Maximum Correctional Facility - Baraga	24,645,600	95,000	96,167	20,075	24,856,842
E.C. Brooks Correctional Facility - Muskegon	39,186,900	(1,120,000)	80,397	176,272	38,323,569
Carson City Correctional Facility - Carson City	39,926,200	(555,000)	569,225	109,609	40,050,034
Chippewa Correctional Facility - Kincheloe	37,337,500	2,424,600	301,025	180,403	40,243,528
Cooper Street Correctional Facility - Jackson	18,617,700	(160,000)	226,178	104,045	18,787,923
G. Robert Cotton Correctional Facility - Jackson	30,736,300	(740,000)	391,072	130,754	30,518,126
Florence Crane Correctional Facility - Coldwater	18,295,900	(1,116,500)	127,366	63,415	17,370,181
Charles E. Egeler Correctional Facility - Jackson	19,474,800	13,165,500	33,910	329,071	33,003,281
Richard A. Handlon Michigan Training Unit - Ionia	21,083,400	1,026,500	204,888	87,337	22,402,125
Gus Harrison Correctional Facility - Adrian	38,874,000	(746,300)	20,769	209,882	38,358,351
Huron Valley Men's Facility - Ypsilanti	20,525,600	3,540,500	779,375	50,555	24,896,030
Ionia Maximum Correctional Facility - Ionia	23,883,000	(110,000)	21,062	14,935	23,808,997
Ionia Temporary Correctional Facility - Ionia	16,740,100	(688,000)	181,386	448,078	16,681,564
Jackson Maximum Correctional Facility - Jackson	37,821,900	(7,760,000)	139,493	2,995,639	33,197,032
Kinross Correctional Facility - Kincheloe	40,083,300	656,700	333,458	164,748	41,238,206
Lakeland Correctional Facility - Coldwater	20,783,300	155,700	212,099	61,150	21,212,249
Macomb Correctional Facility - New Haven	23,775,900	(50,000)	1,596	119,152	23,846,648
Marquette Branch Prison - Marquette	32,097,900	920,200	918,463	158,995	34,095,558
Michigan Reformatory - Ionia	31,856,700	2,947,000	858,459	160,394	35,822,553
Michigan Youth Correctional Facility - Baldwin	761,900		13	12,909,978	13,671,891
Mid-Michigan Correctional Facility - St. Louis	16,844,200	(835,000)	188,761	72,007	16,269,968
Mound Correctional Facility - Detroit	22,547,400	1,450,000	110,395	104,378	24,212,173
Muskegon Correctional Facility - Muskegon	24,395,000	(111,200)	187,673	81,899	24,553,372
Newberry Correctional Facility - Newberry	21,155,700	120,000	376,701	58,939	21,711,340
Oaks Correctional Facility - Eastlake	26,186,600	(420,000)	413,050	15,602	26,195,252
Parnall Correctional Facility - Jackson	21,983,800	(130,000)	68,654	120,019	22,042,473
Pine River Correctional Facility - St. Louis	13,013,400	(205,000)		5,871	12,814,271
Riverside Correctional Facility - Ionia	25,461,000	9,934,200	990,779	54,523	36,440,502
Ryan Correctional Facility - Detroit	24,022,300	450,000	19,651	104,712	24,596,663
Saginaw Correctional Facility - Freeland	26,340,900	(1,699,000)		102,205	24,744,105
Scott Correctional Facility - Plymouth	24,120,900	(178,000)	232,758	104,814	24,280,472
Southern Michigan Correctional Facility - Jackson	27,852,700	(3,235,000)	17,666	77,195	24,712,561
St. Louis Correctional Facility - St. Louis	20,459,000	(1,127,100)		1,942	19,333,842
Standish Maximum Correctional Facility - Standish	21,362,900	811,000		17,325	22,191,225
State Prison of Southern Michigan - Jackson		3,155,000	140,669		3,295,669
Thumb Correctional Facility - Lapeer	22,172,700	(1,436,200)	215,162	59,145	21,010,807
Western Wayne Correctional Facility - Plymouth	21,409,600	625,900	39,809	106,564	22,181,873
Correction Camps	62,123,100	5,047,900	509,593	495,291	68,175,884
Inmate Housing Fund	8,547,200	(8,547,200)			
Subtotal for Facility Operations	<u>\$ 988,723,200</u>	<u>\$ 14,931,200</u>	<u>\$ 9,015,910</u>	<u>\$ 20,092,049</u>	<u>\$ 1,032,762,359</u>
Intrafund Expenditure Reimbursements	\$	\$	\$	\$ (4,783,994)	\$ (4,783,994)
Total	<u>\$1,482,956,300</u>	<u>\$ 0</u>	<u>\$ 58,361,678</u>	<u>\$ 49,997,195</u>	<u>\$ 1,591,315,173</u>

Disposition of Authorizations

Expenditures and Transfers	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Total
\$ 8,320,541	\$	\$ 1,454	\$	\$ 9,768	\$ 8,331,763
30,098,680	893,336	550,215		77,253	31,619,485
20,361,795		1,031,443		408	21,393,646
41,838,985	7,406,925	2,966,979		256,783	52,469,673
105,597,286		419,490	2,987,232	98,976	109,102,984
38,679,993		1,463,399		84,786	40,228,177
8,496,746		608,468		3,641	9,108,855
48,948,897	3,485,691	652,704		370,388	53,457,680
63,613,026		1,571,203		40,766	65,224,995
44,024,582		817,030		37,425	44,879,037
78,290,498		608,861		83,174	78,982,533
37,768,145	8,684,674	1,983,056		102,107	48,537,981
<u>\$ 526,039,175</u>	<u>\$ 20,470,626</u>	<u>\$ 12,674,301</u>	<u>\$ 2,987,232</u>	<u>\$ 1,165,474</u>	<u>\$ 563,336,809</u>
\$ 21,590,004	\$	\$ 20,472	\$	\$ 4,743	\$ 21,615,218
24,738,624		111,798		6,420	24,856,842
38,226,074		97,050		445	38,323,569
39,398,592		629,160		22,283	40,050,034
38,969,730		1,258,300		15,499	40,243,529
18,425,608		333,364		28,951	18,787,923
30,018,317		471,939		27,869	30,518,126
16,971,522		386,109		12,550	17,370,181
32,957,460		31,574		14,247	33,003,280
22,122,905	14	269,812		9,394	22,402,125
38,290,122		67,307		922	38,358,351
24,247,297		523,136		125,597	24,896,030
23,563,879	32,145	199,069		13,904	23,808,997
16,531,438	13,394	112,585		24,148	16,681,565
32,680,052		506,126		10,854	33,197,032
41,052,650		162,877		22,679	41,238,206
20,905,634		290,602		16,013	21,212,249
23,751,440		55,149		40,059	23,846,648
33,278,027		804,408		13,124	34,095,558
34,124,822	22,353	1,661,565		13,814	35,822,553
13,671,890					13,671,890
16,155,978		55,326		58,664	16,269,969
24,080,448		14,739		116,986	24,212,172
24,348,883		201,765		2,723	24,553,372
21,343,762		347,711		19,867	21,711,340
25,778,034		411,049		6,169	26,195,252
21,763,477		246,588		32,408	22,042,472
12,760,078		45,699		8,494	12,814,271
34,601,581	48,217	1,738,845		51,860	36,440,503
24,566,370		19,443		10,851	24,596,663
24,306,401		294,926		142,778	24,744,105
24,187,387		35,131		57,954	24,280,471
24,476,960		212,152		23,449	24,712,561
19,204,537		122,215		7,090	19,333,842
22,133,020				58,205	22,191,225
3,053,694		241,975			3,295,669
20,673,304		325,273		12,229	21,010,806
22,042,811		83,226		55,837	22,181,874
67,096,400		1,055,557		23,926	68,175,883
<u>\$ 1,018,089,209</u>	<u>\$ 116,123</u>	<u>\$ 13,444,020</u>	<u>\$ 0</u>	<u>\$ 1,113,006</u>	<u>\$ 1,032,762,358</u>
<u>\$ (4,783,994)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (4,783,994)</u>
<u>\$ 1,539,344,390</u>	<u>\$ 20,586,749</u>	<u>\$ 26,118,322</u>	<u>\$ 2,987,232</u>	<u>\$ 2,278,480</u>	<u>\$ 1,591,315,173</u>

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001

Federal Agency/Program	Fiscal Year Ended September 30, 2000				
	CFDA(2) Program Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 150,485	\$	\$ 150,485
National School Lunch Program	10.555	330008008	239,966		239,966
Total Child Nutrition Cluster			<u>\$ 390,451</u>	<u>\$ 0</u>	<u>\$ 390,451</u>
Total U.S. Department of Agriculture			\$ 390,451	\$ 0	\$ 390,451
U.S. Department of Justice					
Direct Programs:					
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586		(3) \$ 12,909,978	\$14,109,785	\$ 27,019,763
State Criminal Alien Assistance Program	16.606		2,251,070		2,251,070
Total Direct Programs			<u>\$ 15,161,048</u>	<u>\$14,109,785</u>	<u>\$ 29,270,833</u>
Pass-Through Programs:					
Michigan Department of Community Health					
Byrne Formula Grant Program	16.579	70672-4k98	\$ 1,598	\$	\$ 1,598
Byrne Formula Grant Program	16.579	70672-4k99	290,669		290,669
Total Byrne Formula Grant Program			(1) <u>\$ 292,267</u>	<u>\$ 0</u>	<u>\$ 292,267</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-2S97/98	\$ 463,544	\$	\$ 463,544
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-4S99	959,096		959,096
Total Residential Substance Abuse Treatment for State Prisoners			(1) <u>\$ 1,422,640</u>	<u>\$ 0</u>	<u>\$ 1,422,640</u>
Total Pass-Through Programs			<u>\$ 1,714,907</u>	<u>\$ 0</u>	<u>\$ 1,714,907</u>
Total U.S. Department of Justice			\$ 16,875,955	\$14,109,785	\$ 30,985,740
Institute of Museum and Library Services					
Pass-Through Program:					
Library of Michigan					
State Library Program	45.310	2k-402	\$ 22,675	\$	\$ 22,675
State Library Program	45.310	2k-405	18,021		18,021
Total Institute of Museum and Library Services			\$ 40,696	\$ 0	\$ 40,696
U.S. Department of Education					
Pass-Through Programs:					
Michigan Department of Career Development					
Adult Education - State Grant Program	84.002	1190/20079	\$ 539,483	\$	\$ 539,483
Adult Education - State Grant Program	84.002				
Total Adult Education - State Grant Program			<u>\$ 539,483</u>	<u>\$ 0</u>	<u>\$ 539,483</u>
Vocational Education - Basic Grants to States	84.048	3320/2281	\$ 171,478	\$	\$ 171,478
Vocational Education - Basic Grants to States	84.048	4271	38,126		38,126
Total Vocational Education - Basic Grants to States			<u>\$ 209,604</u>	<u>\$ 0</u>	<u>\$ 209,604</u>
Total Pass-Through Programs - Michigan Department of Career Development			<u>\$ 749,087</u>	<u>\$ 0</u>	<u>\$ 749,087</u>
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	1660/9900	\$ 219,878	\$	\$ 219,878
Title I Program for Neglected and Delinquent Children	84.013	1669/9900	74,816		74,816
Total Title I Program for Neglected and Delinquent Children			<u>\$ 294,694</u>	<u>\$ 0</u>	<u>\$ 294,694</u>
Special Education - Grants to States	84.027	0490/61CB	\$ 5,000	\$	\$ 5,000
Special Education - Grants to States	84.027	0440/61	59,282		59,282
Special Education - Grants to States	84.027				

This schedule continued on next page.

Fiscal Year Ended September 30, 2001

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
330008008	\$ 172,183	\$	\$ 172,183	\$ 322,668
330008008	299,975		299,975	539,941
	<u>\$ 472,158</u>	<u>\$ 0</u>	<u>\$ 472,158</u>	<u>\$ 862,609</u>
	\$ 472,158	\$ 0	\$ 472,158	\$ 862,609
(3)	\$ 16,935,603	\$ 1,800,937	\$ 18,736,540	\$ 45,756,303
	1,878,849		1,878,849	4,129,919
	<u>\$ 18,814,452</u>	<u>\$ 1,800,937</u>	<u>\$ 20,615,389</u>	<u>\$ 49,886,222</u>
70846-2K00	\$ 218,008	\$	\$ 218,008	\$ 219,606
70846-1K99	161,669		161,669	452,338
(1)	<u>\$ 379,677</u>	<u>\$ 0</u>	<u>\$ 379,677</u>	<u>\$ 671,944</u>
90001-5500	\$ 1,362,789	\$	\$ 1,362,789	\$ 1,826,333
(1)	<u>\$ 1,362,789</u>	<u>\$ 0</u>	<u>\$ 1,362,789</u>	<u>\$ 2,785,429</u>
	<u>\$ 1,742,466</u>	<u>\$ 0</u>	<u>\$ 1,742,466</u>	<u>\$ 3,457,373</u>
	\$ 20,556,918	\$ 1,800,937	\$ 22,357,855	\$ 53,343,595
304-01	\$ 12,535	\$	\$ 12,535	\$ 35,210
				18,021
	<u>\$ 12,535</u>	<u>\$ 0</u>	<u>\$ 12,535</u>	<u>\$ 53,231</u>
011190/0020	\$ 269,800	\$	\$ 269,800	\$ 809,283
011190/1011	269,800		269,800	269,800
	<u>\$ 539,600</u>	<u>\$ 0</u>	<u>\$ 539,600</u>	<u>\$ 1,079,083</u>
0133020/6702	\$ 162,323	\$	\$ 162,323	\$ 333,801
				38,126
	<u>\$ 162,323</u>	<u>\$ 0</u>	<u>\$ 162,323</u>	<u>\$ 371,927</u>
	<u>\$ 701,923</u>	<u>\$ 0</u>	<u>\$ 701,923</u>	<u>\$ 1,451,010</u>
011660/0001	\$ 108,695	\$	\$ 108,695	\$ 328,573
001660/0001	28,966		28,966	103,782
	<u>\$ 137,661</u>	<u>\$ 0</u>	<u>\$ 137,661</u>	<u>\$ 432,355</u>
010490/61CB	\$ 5,000	\$	\$ 5,000	\$ 10,000
000440/61	6,586		6,586	65,868
010440/61	57,129		57,129	57,129

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1999 through September 30, 2001
Continued

Fiscal Year Ended September 30, 2000					
Federal Agency/Program	CFDA(2) Program Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Special Education - Grants to States	84.027				
Special Education - Grants to States	84.027				
Total Special Education - Grants to States			\$ 64,282	\$ 0	\$ 64,282
Grants to States for Incarcerated Youth Offenders	84.331	V331A990043	\$ 360,061	\$	\$ 360,061
Grants to States for Incarcerated Youth Offenders	84.331	V331A000043			
Total Grants to States for Incarcerated Youth Offenders			\$ 360,061	\$ 0	\$ 360,061
Total Pass-Through Programs - Michigan Department of Education			\$ 719,037	\$ 0	\$ 719,037
Total U.S. Department of Education			\$ 1,468,124	\$ 0	\$ 1,468,124
U.S. Department of Health and Human Services					
Pass-Through Programs:					
Michigan Department of Community Health					
HIV Care Formula Grants	93.917		(1) \$ 77,948	\$	\$ 77,948
Block Grants for the Prevention and Treatment of Substance Abuse	93.959		563,000		563,000
Total U.S. Department of Health and Human Services			\$ 640,948	\$ 0	\$ 640,948
Total Expenditures of Federal Awards			\$ 19,416,174	\$14,109,785	\$ 33,525,959

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Corrections (DOC) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

DOC is a subrecipient of certain federal programs from the Department of Community Health. In accordance with State accounting policy, the Department of Community Health records the federal revenue and expenditures for these programs. DOC is reimbursed for its costs through an expenditure credit. The expenditure credits recorded for fiscal years 1999-2000 and 2000-01 were \$1,792,855 and \$2,383,972, respectively.

DOC distributes some federal grants to other State departments as a pass-through entity. In these cases, the transfer of the financing is recorded in the accounting records as a revenue debit.

As a result of these expenditure credits and revenue debits, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenue and transfers.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) For the fiscal year ended September 30, 2000, DOC passed through \$33,440,605 of Violent Offender Incarceration and Truth in Sentencing Incentive Grants to the Department of Management and Budget to construct a correctional facility. Subsequently, with U.S. Department of Justice approval, the Department of Management and Budget reclassified the federal revenue and expenditures in the amount of \$19,333,820 to State funding and returned the federal funds to DOC to be used for future federal expenditures.

Fiscal Year Ended September 30, 2001

<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
010490/61	3,887		3,887	3,887
010490/61TS	19,772		19,772	19,772
	<u>\$ 92,374</u>	<u>\$ 0</u>	<u>\$ 92,374</u>	<u>\$ 156,656</u>
V331A990043	\$ 195,725	\$	\$ 195,725	\$ 555,786
	138,657		138,657	138,657
	<u>\$ 334,382</u>	<u>\$ 0</u>	<u>\$ 334,382</u>	<u>694,443</u>
	<u>\$ 564,417</u>	<u>\$ 0</u>	<u>\$ 564,417</u>	<u>\$ 1,283,454</u>
	<u>\$ 1,266,340</u>	<u>\$ 0</u>	<u>\$ 1,266,340</u>	<u>\$ 2,734,464</u>
(1)	\$ 78,506	\$	\$ 78,506	\$ 156,454
(1)	563,000		563,000	1,126,000
	<u>\$ 641,506</u>	<u>\$ 0</u>	<u>\$ 641,506</u>	<u>\$ 1,282,454</u>
	<u>\$ 22,949,457</u>	<u>\$ 1,800,937</u>	<u>\$ 24,750,394</u>	<u>\$ 58,276,353</u>

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

February 22, 2002

Mr. William S. Overton, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. Overton:

We have audited the General Fund financial schedules of the Department of Corrections for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions

of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

February 22, 2002

Mr. William S. Overton, Director
Department of Corrections
Grandview Plaza
Lansing, Michigan

Dear Mr. Overton:

Compliance

We have audited the compliance of the Department of Corrections with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 3 and 4 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable costs/cost principles and activities allowed or unallowed that are applicable to its Adult Education - State Grant Program and Residential Substance Abuse Treatment for State Prisoners. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Department of Corrections complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2001 and September 30, 2000.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 3 and 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 3 and 4 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

Reportable conditions* identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for the Adult Education - State Grant Program and Residential Substance Abuse Treatment for State Prisoners, which are qualified*.

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?

Yes

* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
16.606	State Criminal Alien Assistance Program
84.002	Adult Education - State Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$1,748,291

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (470201)

1. Encumbrances

The Department of Corrections (DOC) did not establish encumbrances at fiscal year-end in accordance with the Department of Management and Budget (DMB) Administrative Guide.

DOC establishes encumbrances at fiscal year-end for commitments related to unperformed contracts for goods and services. In order for a contract to qualify as an encumbrance, DMB Administrative Guide procedure 1210.27 requires that all contracting parties sign and date the contract prior to September 16 and that the contract represent a legal obligation of the State to pay a specific sum. Also, DMB procedure allows contracts between State departments to qualify for encumbrance carry-forward if the contract meets the preceding criteria.

** See glossary at end of report for definition.*

Our review disclosed that DOC did not always have qualifying contracts to support encumbrances:

- a. DOC established encumbrances totaling \$2,174,910 and \$2,246,555 in fiscal years 2000-01 and 1999-2000, respectively, without having signed contracts or a specific sum obligation of the State prior to September 16.

DOC established the encumbrances based on annual memorandums of understanding with the DMB Office of Design and Construction. The memorandums included estimates of funding needed to complete miscellaneous operating projects* at various correctional facilities. The Office was to contract with vendors to provide services for the projects, which would have created a legal specific sum obligation of the State and would have satisfied the DMB encumbrance criteria. However, the Office had not entered into vendor contracts prior to September 16 for these encumbrances.

The DMB Office of Financial Management informed DOC that the use and receipt (prior to September 16) of the memorandums fulfill the contract and date requirements to qualify as an encumbrance, regardless of whether DMB entered into contracts with vendors.

We noted the same condition during our prior audit and DOC responded that it was following DMB encumbrance criteria when it encumbered these projects.

- b. DOC overstated a fiscal year 1998-99 encumbrance by \$53,000. The contract was for \$400,000 and the initial encumbrance established was \$453,000. The \$53,000 overstatement was carried forward to fiscal years 1999-2000 and 2000-01.

DOC's compliance with DMB encumbrance criteria would help ensure that only necessary spending authority carries forward and that financial reporting is accurate.

* See glossary at end of report for definition.

RECOMMENDATION

WE AGAIN RECOMMEND THAT DOC ESTABLISH ENCUMBRANCES AT FISCAL YEAR-END IN ACCORDANCE WITH THE DMB ADMINISTRATIVE GUIDE.

FINDING (470202)

2. Payroll Transactions

DOC did not consistently adhere to prescribed procedures for retaining transaction documentation.

Our review disclosed 3 (20%) of 15 gross pay adjustment (GPA) transactions in which adequate supporting and/or approval documentation could not be located. DOC's practice is to retain GPA transaction documentation in employee personnel files.

The DMB retention and disposal schedule specifies that personnel files for active employees are to be retained permanently at the agency.

Although this condition limited DOC's ability to verify the propriety of payroll transactions, nothing came to our attention that would indicate that the 3 transactions were not proper.

RECOMMENDATION

We recommend that DOC consistently adhere to prescribed procedures for retaining transaction documentation.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (470203)

3. Equipment

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: 1190/20079	Award Period: 07/01/99 - 09/30/00
Pass-Through From the Michigan Department of Career Development	Questioned Costs: \$65,968

DOC did not obtain approval from the Michigan Department of Career Development (MDCD) prior to expending federal funds on the purchase of equipment totaling \$65,968 for the Adult Education - State Grant Program.

OMB Circular A-87 defines capital equipment as an item having a useful life of more than one year and an acquisition cost equal to the lesser of the capitalization level established by the governmental unit for financial statement purposes or \$5,000. Also, OMB Circular A-87 requires capital expenditures for equipment to be approved by the awarding agency in order to be considered allowable as direct costs.

As a subrecipient*, DOC received federal funds from MDCD to administer the Adult Education - State Grant Program. Subsequent to our audit, DOC requested and obtained approval from MDCD for the equipment purchases totaling \$65,968.

Noncompliance with allowable cost principles and standards may result in federal grantor agencies disallowing program expenditures and rejecting subsequent requests for federal funds. We considered this internal control weakness and the resulting noncompliance with costs allowed or unallowed to be material to DOC's Adult Education - State Grant Program.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that DOC obtain approval from MDCCD prior to expending federal funds on the purchase of equipment for the Adult Education - State Grant Program.

FINDING (470204)

4. Residential Substance Abuse Treatment for State Prisoners (RSAT) Case Files

U.S. Department of Justice	CFDA: 16.593 Residential Substance Abuse Treatment for State Prisoners
Award Number: 90001-2S97/98 90001-4S99 90001-5S00	Award Period: 10/01/98 - 03/31/00 04/01/00 - 09/30/00 10/01/00 - 09/30/01
Pass-Through From the Michigan Department of Community Health	Questioned Costs: \$43,750

DOC did not consistently comply with RSAT program requirements and with established case file internal control procedures for documenting RSAT activities.

The Office of Justice Programs/Corrections Program Office program guide states that RSAT formula grant funds may be used to implement residential substance abuse programs that provide individual and group treatment activities for offenders in residential facilities operated by state and local correctional agencies. These programs must last between 6 and 12 months and each offender must participate in the program for not less than 6, nor more than 12, months, unless he or she drops out or is terminated.

The Department of Community Health passes federal awards through to DOC, based on the grant agreement. The agreement states that prisoners who have a history of substance abuse and are within 12 to 18 months of their earliest release date are to receive treatment in the RSAT program. DOC contracted with a third party to obtain substance abuse residential treatment services.

Our review of 20 randomly selected prisoner case files disclosed:

- a. DOC admitted 17 (89%) of the 19 documented RSAT prisoners (see item c.) into the program less than 12 months from their earliest release date. As a result, we questioned costs totaling \$41,839.
- b. DOC released 4 (21%) of the 19 documented prisoners from the RSAT program 13 to 20 days before the prisoners participated in the program for the minimum 6 months. As a result, we questioned costs totaling \$8,497.
- c. DOC's contractor did not maintain documentation to show when 1 prisoner was admitted to or released from the program. As a result, we questioned costs totaling \$1,912.

Noncompliance with the grant agreement and program guide may result in the federal grantor agencies disallowing program expenditures and rejecting subsequent requests for federal funds. We considered this internal control weakness and the resulting noncompliance with activities allowed or unallowed to be material to RSAT.

RECOMMENDATION

We recommend that DOC staff consistently comply with RSAT program requirements and with established case file internal control procedures for documenting RSAT activities.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF CORRECTIONS
Summary Schedule of Prior Audit Findings
As of September 30, 2001

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470002
Finding Title: Expenditure Classification
Finding: See Finding 470003 with the findings related to federal awards.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470001
Finding Title: Encumbrances
Finding: The Department of Corrections (DOC) did not establish encumbrances at fiscal year-end in accordance with Department of Management and Budget (DMB) criteria.
Comments: DOC disagreed with item a. of the finding. DOC is establishing encumbrances according to DMB instructions/guidelines. DOC agreed with item b. and has taken steps to comply.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470003
Finding Title: Expenditure Classification
Finding: DOC did not properly classify all federal program expenditures as required by the Common Rule when administering the Adult

Education - State Grant Program and the Title I Program for Neglected and Delinquent Children.

Comments: All staff have been trained in the classification of object codes for expenditure transactions and journal vouchers. Also, queries are now being run in the Michigan Administrative Information Network* (MAIN) Management Information Database (MIDB) to verify the accuracy of coding.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 470004

Finding Title: Adult Education - State Grant Program Budget and Federal Awards

Finding: DOC did not expend Adult Education - State Grant Program federal awards in accordance with the categorical budgets approved by the Michigan Department of Education. Also, DOC did not accurately report its expenditures to the Department.

Comments: Revisions of categorical budgets formerly administered by the Michigan Department of Education are now being sent to the Michigan Department of Career Development for approval.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 470005

Finding Title: Federal Payroll Costs

Finding: DOC did not properly document payroll costs charged to four of its federal programs.

Comments: Payroll cost documentation is now being sent to DOC's central office and reviewed to ensure compliance.

Audit Period: October 1, 1997 through September 30, 1999

Finding Number: 470006

Finding Title: Child Nutrition Cluster

Finding: DOC did not record federal awards expended for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) separately in MAIN.

Comments: A new program cost account was established to track these expenditures.

* See glossary at end of report for definition.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470007
Finding Title: Federal Reporting
Finding: DOC's internal control did not ensure that required federal financial and program activity reports were submitted in compliance with applicable federal law and grant award requirements.
Comments: Staff have been informed that there must be compliance with federal reporting requirements.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470008
Finding Title: Meal Counts
Finding: DOC's internal control did not ensure that reimbursement claims for SBP and NSLP accurately reflected the number of meals served to eligible prisoners.
Comments: Food Service staff in DOC's central office have done on-site reviews to monitor compliance. Also, a policy directive has been written to address this, but it is still in the review stage.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 470009
Finding Title: Subrecipient Monitoring
Finding: DOC did not establish a comprehensive subrecipient monitoring process to ensure that the Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants federal awards provided to its subrecipient were expended in accordance with applicable laws, regulations, and provisions of contracts or grants.
Comments: A contract has been entered into between DMB and DOC. Further, DOC uses the Office of the Auditor General's Single Audit of DMB to monitor the VOI-TIS program. There were no citations regarding VOI-TIS in DMB's audit.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of May 1, 2002

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 470201

Finding Title: Encumbrances

Management Views: We disagree with item a., which states that we are not in compliance with Department of Management and Budget (DMB) criteria for encumbering miscellaneous operating projects. We are following DMB instructions/guidelines when encumbering these projects as noted in the auditors' finding. We agree with item b. and have taken steps to comply.

Corrective Action: Regarding item b., we have instructed the program area that did not have the contract signed by September 16 to adhere to encumbrance criteria.

Anticipated Completion Date: a. None
b. Completed March 31, 2002

Responsible Individual: Mike Draschil, Manager, Finance Division

Finding Number: 470202

Finding Title: Payroll Transactions

Management Views: We agree and have taken steps to comply.

Corrective Action: We reminded personnel managers to retain payroll transactions in accordance with the retention schedule. We also reminded personnel managers to review transactions using available reconciliation

reports and to retain electronic documentation of their review.

Anticipated Completion Date: Completed April 26, 2002

Responsible Individual: Jim Thelen, Manager, Technical Services Division,
Bureau of Human Resources

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 470203

Finding Title: Equipment

Management Views: We agree and have complied. We were not aware of the federal requirement.

Corrective Action: Approvals from the Michigan Department of Career Development for equipment purchases over \$5,000 are now being obtained.

Anticipated Completion Date: Completed December 12, 2001

Responsible Individual: Diane Spence, Manager, Education Section

Finding Number: 470204

Finding Title: Residential Substance Abuse Treatment for State Prisoners (RSAT) Case Files

Management Views: Regarding item a., we agree in that it is our practice to screen offenders, who are within 9 to 18 months of their earliest release date, for entry into the program about 6 months prior to their earliest release date.

Regarding item b., we agree in that occasionally, prisoners are transferred from the program/facility as a result of transfers (court appearances, medical transfers, etc.) just prior to their graduation. In these instances, offender achievement is recognized for participants who meet the minimum therapeutic standards (the core work is completed and the participant is in the pre-release phase).

Regarding item c., we agree that a form was missing. However, admission and discharge dates were recorded in our database for this case.

Corrective Action:

To comply regarding item a., we will revise the grant application to reflect our current practice.

Regarding item b., we will continue to apply the 6-month minimum standard for graduates but will still recognize achievement for those who are transferred before 6 months but have met the minimum therapeutic standards.

To comply regarding item c., we have advised the contractor that all cases of treated offenders must be completely maintained.

Anticipated Completion Date:

- a. Completed April 23, 2002
- b. None
- c. Completed April 23, 2002

Responsible Individual:

Cheryl Walker, Manager, Substance Abuse Section

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
DOC	Department of Corrections.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
GPA	gross pay adjustment.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.

material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MDCD	Michigan Department of Career Development.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
NSLP	National School Lunch Program.
OMB	U.S. Office of Management and Budget.
operating projects	Services for the acquisition, construction, improvement, or demolition of facilities.
qualified opinion	An auditor's opinion in which the auditor: <ul style="list-style-type: none"> a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the

financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.

questioned cost

A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
RSAT	Residential Substance Abuse Treatment for State Prisoners.
SBP	School Breakfast Program.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires 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 OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

VOI-TIS

Violent Offender Incarceration and Truth in Sentencing.