

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1999 through September 30, 2001



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

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

**Department of Consumer and Industry
 Services (CIS)**

**Report Number:
 63-100-02**

**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 CIS's financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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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 3 unqualified opinions and 1 qualified opinion. 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 did not identify any material weaknesses in internal control over major programs. However, we did identify a reportable condition (Finding 3).

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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 1 through 3).

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Systems of Accounting and Internal Control:

We determined that CIS 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>
17.503	Occupational Safety and Health - State Program	Unqualified
17.504	Consultation Agreements	Unqualified
93.658	Foster Care - Title IV-E	Qualified
93.777 and 93.778	Medicaid Cluster	Unqualified

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

June 26, 2002

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services (CIS) 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 CIS 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 CIS'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 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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AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

March 29, 2002

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

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 Consumer and Industry Services 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 Consumer and Industry Services' 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 Consumer and Industry Services 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 March 29, 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 the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, 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 CONSUMER AND INDUSTRY SERVICES
Schedule of General Fund Revenue and Transfers
Fiscal Years Ended September 30

	<u>2001</u>	<u>2000</u>
REVENUE		
Tax:		
Beer and wine	\$ 50,357,279	\$ 50,036,123
Insurance company premium tax	6,565,054	5,750,795
Liquor tax	<u>29,344,661</u>	<u>28,067,155</u>
Total Tax Revenue	<u>\$ 86,266,994</u>	<u>\$ 83,854,073</u>
Federal:		
Department of Energy	\$ 1,590,594	\$ 975,776
Department of Health and Human Services	26,012,657	24,719,863
Department of Housing and Urban Development	126,720	208,394
Department of Labor	11,217,361	10,806,253
Department of Transportation	256,728	281,512
Other federal agencies	<u>594,234</u>	<u>584,238</u>
Total Federal Revenue	<u>\$ 39,798,294</u>	<u>\$ 37,576,036</u>
Services	<u>\$ 2,810,720</u>	<u>\$ 1,914,976</u>
Licenses and permits	<u>\$ 121,104,051</u>	<u>\$ 121,859,555</u>
Miscellaneous	<u>\$ 13,930,420</u>	<u>\$ 15,186,298</u>
Total Revenue	<u>\$ 263,910,479</u>	<u>\$ 260,390,938</u>
TRANSFERS		
Transfers From Liquor Purchase Revolving Fund (Note 2)	<u>\$ 126,255,939</u>	<u>\$ 126,366,489</u>
Total Transfers	<u>\$ 126,255,939</u>	<u>\$ 126,366,489</u>
Total Revenue and Transfers	<u>\$ 390,166,418</u>	<u>\$ 386,757,427</u>

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

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2001</u>	<u>2000</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 83,343,500	\$ 80,857,500
Balances carried forward	70,589,942	60,850,526
Restricted financing sources	159,750,943	153,397,658
Less: Intrafund expenditure reimbursements	<u>(68,660)</u>	<u>(66,252)</u>
Total	<u>\$ 313,615,725</u>	<u>\$ 295,039,432</u>
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers	\$ 241,227,754	\$ 222,367,135
Less: Intrafund expenditure reimbursements	<u>(68,660)</u>	<u>(66,252)</u>
Net expenditures and transfers	<u>\$ 241,159,094</u>	<u>\$ 222,300,883</u>
Balances carried forward:		
Multi-year projects	\$	\$ 547,563
Encumbrances	5,389,102	5,930,978
Restricted revenue - authorized	98,693	82,934
Restricted revenue - not authorized	<u>65,537,415</u>	<u>64,028,467</u>
Total balances carried forward	<u>\$ 71,025,210</u>	<u>\$ 70,589,942</u>
Balances lapsed	<u>\$ 1,431,421</u>	<u>\$ 2,148,607</u>
Total	<u>\$ 313,615,725</u>	<u>\$ 295,039,432</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 Consumer and Industry Services (CIS) for the fiscal years ended September 30, 2001 and September 30, 2000. The financial transactions of CIS 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 notes accompanying these financial schedules relate directly to CIS. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Compensated Absences; General Long-Term Obligations; and Contingencies and Commitments.

For purposes of presenting the financial transactions of CIS in the accompanying financial schedules, the following entities and/or funds have been excluded from CIS's reporting entity:

- (1) The Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a biennial financial audit.
- (2) The Michigan State Housing Development Authority (MSHDA), including its federal financial assistance programs. MSHDA issues annual audited financial statements and also obtains a biennial Single Audit.
- (3) The Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the

Michigan Employment Security Act Contingent Fund. In fiscal year 2000-01, the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund were presented in the *SOMCAFR* as a major proprietary fund entitled Michigan Unemployment Compensation Funds. These funds receive separate annual financial audits and a biennial Single Audit.

- (4) Various funds: Safety Education and Training Fund; Uninsured Employers' Security Fund (which sunset on June 1, 2000); State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds (known as the Workers' Disability Compensation Trust Funds in fiscal year 2000-01); and Insurance Carrier Deposits Fund. These funds receive no federal financing and are periodically audited by the Office of the Auditor General.

Act 63, P.A. 2001, transferred the Michigan Council for Arts and Cultural Affairs (MCACA) from CIS to the Department of History, Arts, and Libraries. Although the transfer was effective August 6, 2001, all financial transactions, including MCACA's federal program entitled Promotion of the Arts - Partnership Agreements (*CFDA* Number 45.025), remained within the CIS reporting entity through September 30, 2001. Also, nine related program staff transferred to the Department of History, Arts, and Libraries.

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 State 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 CIS's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either CIS or

the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Transfers From the Liquor Purchase Revolving Fund

The transfers from the Liquor Purchase Revolving Fund for fiscal years 2000-01 and 1999-2000 were statutory transfers of Fund profits (\$118.8 million and \$119.7 million, respectively) and transfers for grants to cities, villages, and townships with State-owned facilities for fire protection services (\$7.4 million and \$6.7 million, respectively).

Note 3 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. 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.
- c. 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.
- d. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular program or activity. However, CIS had not received legislative authorization to expend the revenue. Significant carry-forwards

of this type for fiscal years 2000-01 and 1999-2000, respectively, were insurance licensing fees revenue (\$10.2 million and \$8.0 million), remonumentation fees revenue (\$9.1 million and \$8.3 million), corporation fees revenue (\$8.1 million and \$6.4 million), insurance regulatory fees revenue (\$3.1 million and \$5.4 million), and boiler fees revenue (\$4.0 million and \$4.1 million).

SUPPLEMENTAL FINANCIAL SCHEDULES

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DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	<u>2001</u>	<u>2000</u>
ASSETS		
Amounts due from federal agencies	\$ 10,232,766	\$ 8,098,200
Amounts due from other funds	\$ 741,200	\$ 0
Taxes receivable	\$ 2,435,100	\$ 2,253,197
Other current assets	\$ 2,878,257	\$ 3,116,093
LIABILITIES		
Accounts payable	\$ 2,951,472	\$ 1,362,688
Deferred revenue	\$ 1,806,298	\$ 1,207,715

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Consumer and Industry Services. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as equity in Common Cash, cash in transit, and warrants outstanding.

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

For the Fiscal Year Ended September 30, 2000

<u>Federal Agency/Program</u>	<u>CFDA (2) Number</u>	<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Program:					
Manufactured Home Construction and Safety Standards	14.171		\$ 208,394	\$	\$ 208,394
Total U.S. Department of Housing and Urban Development			<u>\$ 208,394</u>	<u>\$ 0</u>	<u>\$ 208,394</u>
<u>U.S. Department of Labor</u>					
Direct Programs:					
Compensation and Working Conditions	17.005		\$ 143,435	\$	\$ 143,435
Occupational Safety and Health - State Program	17.503		9,151,746		9,151,746
Consultation Agreements	17.504		1,399,099		1,399,099
Mine Health and Safety Grants	17.600		402	111,197	111,599
Total U.S. Department of Labor			<u>\$ 10,694,682</u>	<u>\$ 111,197</u>	<u>\$ 10,805,879</u>
<u>U.S. Department of Transportation</u>					
Direct Program:					
Pipeline Safety	20.700		\$ 276,643	\$ 15,000	\$ 291,643
Total U.S. Department of Transportation			<u>\$ 276,643</u>	<u>\$ 15,000</u>	<u>\$ 291,643</u>
<u>National Foundation on the Arts and the Humanities</u>					
Direct Program:					
Promotion of the Arts - Partnership Agreements (3)	45.025		\$ 568,600	\$	\$ 568,600
Total National Foundation on the Arts and the Humanities			<u>\$ 568,600</u>	<u>\$ 0</u>	<u>\$ 568,600</u>
<u>U.S. Department of Energy</u>					
Direct Programs:					
National Energy Information Center	81.039		\$ 5,750	\$	\$ 5,750
State Energy Program	81.041		695,430	261,561	956,991
Regional Biomass Energy Programs	81.079			10,158	10,158
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105				
State Energy Program Special Projects	81.119		36,969	11,268	48,237
Total U.S. Department of Energy			<u>\$ 738,149</u>	<u>\$ 282,987</u>	<u>\$ 1,021,136</u>
<u>U.S. Department of Health and Human Services</u>					
Medicaid Cluster					
Direct Program:					
State Survey and Certification Program of Health Care Providers and Suppliers	93.777		\$ 320,587	\$	\$ 320,587
Pass-Through Programs:					
Department of Community Health					
State Survey and Certification Program of Health Care Providers and Suppliers	93.777		5,729,035		5,729,035
Medical Assistance Program (Medicaid)	93.778		<u>4,262,114</u>	<u>4,457,750</u>	<u>8,719,864</u>
Total Medicaid Cluster			<u>\$ 10,311,736</u>	<u>\$ 4,457,750</u>	<u>\$ 14,769,486</u>
Direct Programs:					
Emergency Medical Services for Children	93.127		\$ 719	\$	\$ 719
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children	93.197			46,770	46,770
Development and Coordination of Rural Health Services	93.223		323,547		323,547
Occupational Safety and Health Research Grants	93.262			155,878	155,878
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		<u>15,000</u>		<u>15,000</u>
Total Direct Programs			<u>\$ 339,266</u>	<u>\$ 202,648</u>	<u>\$ 541,914</u>

For the Fiscal Year Ended September 30, 2001

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 126,720	\$	\$ 126,720	\$ 335,114
\$ 126,720	\$ 0	\$ 126,720	\$ 335,114
\$ 160,463	\$	\$ 160,463	\$ 303,898
9,483,502		9,483,502	18,635,248
1,399,068		1,399,068	2,798,167
	174,326	174,326	285,925
\$ 11,043,033	\$ 174,326	\$ 11,217,359	\$ 22,023,238
\$ 249,728	\$ 7,000	\$ 256,728	\$ 548,371
\$ 249,728	\$ 7,000	\$ 256,728	\$ 548,371
\$	\$ 578,800	\$ 578,800	\$ 1,147,400
\$ 0	\$ 578,800	\$ 578,800	\$ 1,147,400
\$ 10,900	\$	\$ 10,900	\$ 16,650
885,038	428,794	1,313,832	2,270,823
	53,974	53,974	64,132
	104,000	104,000	104,000
1,233	105,435	106,668	154,905
\$ 897,171	\$ 692,203	\$ 1,589,374	\$ 2,610,510
\$ 323,720	\$	\$ 323,720	\$ 644,307
6,208,795		6,208,795	11,937,830
4,834,034	4,821,094	9,655,128	18,374,992
\$ 11,366,549	\$ 4,821,094	\$ 16,187,643	\$ 30,957,129
\$ 16,331	\$ 260,000	\$ 276,331	\$ 277,050
	986	986	47,756
342,822	185,066	342,822	666,369
		185,066	340,944
15,000		15,000	30,000
\$ 374,153	\$ 446,052	\$ 820,205	\$ 1,362,119

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

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Other Pass-Through Programs:					
Family Independence Agency					
Child Care and Development Block Grant (CCDBG)	93.575	01-IA11	\$ 7,381,900	\$	\$ 7,381,900
Foster Care - Title IV-E	93.658	01-IA10	1,320,209		1,320,209
Department of Community Health					
Preventive Health and Health Services Block Grant	93.991	01631005	705,200		705,200
Total Other Pass-Through Programs			\$ 9,407,309	\$ 0	\$ 9,407,309
Total U.S. Department of Health and Human Services			\$ 20,058,311	\$ 4,660,398	\$ 24,718,709
 Total Expenditures of Federal Awards			 <u>\$ 32,544,779</u>	 <u>\$ 5,069,582</u>	 <u>\$ 37,614,361</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Consumer and Industry Services (CIS) 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.

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

(3) Act 63, P.A. 2001, transferred the Michigan Council for Arts and Cultural Affairs (MCACA) from CIS to the Department of History, Arts, and Libraries. Although the transfer was effective August 6, 2001, all financial transactions, including MCACA's federal program entitled Promotion of the Arts - Partnership Agreements (CFDA Number 45.025), remained within the CIS reporting entity through September 30, 2001.

For the Fiscal Year Ended September 30, 2001

<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>
\$ 7,902,000 763,807	\$	\$ 7,902,000 763,807	\$ 15,283,900 2,084,016
<u>623,041</u>		<u>623,041</u>	<u>1,328,241</u>
\$ 9,288,848	\$ 0	\$ 9,288,848	\$ 18,696,157
<u>\$ 21,029,550</u>	<u>\$ 5,267,146</u>	<u>\$ 26,296,696</u>	<u>\$ 51,015,405</u>
<u>\$ 33,346,202</u>	<u>\$ 6,719,475</u>	<u>\$ 40,065,677</u>	<u>\$ 77,680,038</u>

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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

March 29, 2002

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 2001 and September 30, 2000 and have issued our report thereon dated March 29, 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. 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 material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
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THOMAS H. MCTAVISH, C.P.A.
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

March 29, 2002

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

Compliance

We have audited the compliance of the Department of Consumer and Industry Services 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 Finding 1 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed that are applicable to its Foster Care - Title IV-E Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, the Department of Consumer and Industry Services 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2 and 3.

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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 3.

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, we believe

that the reportable condition identified in the previous paragraph is not 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

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?	None reported
Noncompliance material to the financial schedules?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be a material weakness?	Yes
Type of auditor's report issued on compliance for major programs:	
Unqualified for all major programs except for the Foster Care - Title IV -E Program, which is 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 or Cluster</u>
17.503	Occupational Safety and Health - State Program
17.504	Consultation Agreements
93.658	Foster Care - Title IV-E
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$2,330,401

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

We did not report any findings related to the financial schedules.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (630201)

1. Eligible Activities

U.S. Department of Health and Human Services	CFDA: 93.658 Foster Care - Title IV-E
Award Number: N/A	Award Period: 10/01/99 - 09/30/00
Pass-Through Agency: Family Independence Agency	Questioned Costs: \$543,981

* See glossary at end of report for definition.

The Department of Consumer and Industry Services (CIS) charged costs associated with ineligible activities to the federal Foster Care - Title IV-E Program during fiscal year 1999-2000.

The Child Welfare Division is responsible for licensing and regulatory functions at child caring institutions, child placing agencies, children's camps, adult foster care camps, and juvenile court-operated facilities throughout the State. Title 45, Part 1356, Section 60(c) of the *Code of Federal Regulations* allows administrative activities for the recruitment and licensing of foster homes and child care institutions to be funded by the Foster Care - Title IV-E Program. However, Title 42, Section 672(c) of the *United States Code* places limitations on the type of eligible foster home and child care institution that may receive federal funds. As a result, the administrative activities that are charged to the grant must also meet the limitations outlined for the type of eligible institution. Excluded from coverage under the Foster Care - Title IV-E Program are public child care institutions accommodating more than 25 children, detention facilities, forestry camps, training schools, and facilities operated primarily for the purpose of detention of children who are determined to be delinquent.

Our review disclosed that the Child Welfare Division performed licensing activities at facilities that were not eligible for reimbursement under the Foster Care - Title IV-E Program. These ineligible activities involved children's camps, adult foster care camps, training schools, facilities exceeding specified size requirements, and various detention related facilities that are not eligible for any Title IV-E Program funds.

We reported this noncompliance in our prior audit. CIS agreed with our finding but was unable to implement corrective actions for fiscal year 1999-2000. CIS charged a total of \$1.3 million to this program during fiscal year 1999-2000, including \$543,981 that was for ineligible activities. We consider this to be material noncompliance with federal regulations.

CIS corrected the problem and was in compliance with these federal requirements for fiscal year 2000-01.

RECOMMENDATION

We recommend that CIS charge only costs associated with eligible activities to the federal Foster Care - Title IV-E Program.

FINDING (630202)

2. **Federal Financial Participation (FFP) Requirements**

U.S. Department of Health and Human Services	CFDA: 93.777 State Survey and Certification Program of Health Care Providers and Suppliers
Award Number: N/A	Award Period: 10/01/99 - 09/30/00
Pass-Through Agency: Department of Community Health	Questioned Costs: \$10,249

CIS was not in compliance with FFP requirements for the federal State Survey and Certification Program of Health Care Providers and Suppliers during fiscal year 1999-2000.

Title 42, Part 433, Section 15(b)(5) of the *Code of Federal Regulations* restricts the amount of FFP to 75% of program costs.

During fiscal year 1999-2000, CIS incurred approximately \$5.3 million of program costs for the federal State Survey and Certification Program of Health Care Providers and Suppliers in 17 budget categories. In one budget category (subcontracts), CIS charged 100% (\$40,994) of the costs to the federal program. This resulted in an overbilling to the federal program of \$10,249. CIS was in compliance with FFP requirements in fiscal year 2000-01.

RECOMMENDATION

We recommend that CIS comply with FFP requirements for the federal State Survey and Certification Program of Health Care Providers and Suppliers.

FINDING (630203)

3. Allowable Costs

U.S. Department of Labor	CFDA: 17.503 Occupational Safety and Health - State Program
Award Number: 60F1-0052	Award Period: 10/01/00 - 09/30/01
	Questioned Costs: \$25,000

CIS's internal control did not ensure that only allowable costs were charged to the federal Occupational Safety and Health - State Program during fiscal year 2000-01.

During fiscal year 2000-01, CIS processed a \$50,000 severance payment to a former employee as a settlement to resolve a wrongful dismissal grievance. CIS charged one half of these costs to the federal program.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes the principles and standards for determining eligible costs for federal awards. Attachment B.11.g of the Circular provides that severance payments are not allowable as direct costs to federal programs. This resulted in an overbilling to the federal program of \$25,000.

RECOMMENDATION

We recommend that CIS improve its internal control to ensure that only allowable costs are charged to the federal Occupational Safety and Health - State Program.

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 CONSUMER AND INDUSTRY SERVICES
Summary Schedule of Prior Audit Findings
As of September 30, 2001

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules in the prior Single Audit.

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: 630001
Finding Title: Allowable Activities
Finding: The Department of Consumer and Industry Services' (CIS's) internal control did not ensure that charges made to the federal Foster Care - Title IV-E Program were for allowable activities in compliance with federal requirements.
Comments: CIS met with the Family Independence Agency (FIA) and discussed what was allowable and has changed its methodology for charging only allowable expenditures. Also, FIA now understands its role to monitor expenditures in a timely manner.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 630002
Finding Title: Nursing Home Surveys and Complaint Investigations
Finding: CIS's internal control did not ensure that annual nursing home surveys and nursing home complaint investigations were completed in accordance with federal regulations.
Comments: Managers have conducted in-service training with staff regarding appropriate documentation of survey tasks and the need to retain all documentation in the files.

In regard to the timeliness of annual surveys and revisits investigations, CIS has incorporated these into bureau performance measures and has monitored them on a monthly basis. Also, additional staffing has increased CIS's ability to meet the requirements.

Audit Period: October 1, 1997 through September 30, 1999
Finding Number: 630003
Finding Title: Subrecipient* Monitoring
Finding: CIS did not monitor subrecipients of the Preventive Health and Health Services Block Grant.
Comments: The contractual requirement to submit monthly activity reports has been reinforced in writing to the contractor. A site visit and audit procedure has also been implemented in order to better comply with the OMB Circular A-133 requirements.

Audit Findings Not Corrected or Partially Corrected

None

* See glossary at end of report for definition.

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

Corrective Action Plan

As of May 29, 2002

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

There were no findings related to the financial schedules for fiscal years 1999-2000 and 2000-01.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 630201

Finding Title: Eligible Activities

Management Views: The Department of Consumer and Industry Services (CIS) informed the Office of the Auditor General of this issue at the entrance meeting. The issue was identified as a finding in the prior audit, but it was too late to make the correction for fiscal year 1999-2000. We agree that the costs should not have been charged to the federal program. We met with the Family Independence Agency and the Office of the State Budget, Department of Management and Budget, during spring 2001 to discuss this issue.

Corrective Action: CIS took corrective action related to this finding during fiscal year 2000-01.

Anticipated Completion Date: Completed

Responsible Individual: Allan Pohl

Finding Number: 630202
Finding Title: Federal Financial Participation (FFP) Requirements

Management Views: We agree that the federal program was overbilled (because of a spreadsheet calculation formula error). Control changes were made for fiscal year 2000-01 to ensure that CIS was in compliance with FFP requirements on future grant billings.

Corrective Action: CIS took corrective action related to this finding during fiscal year 2000-01.

Anticipated Completion Date: Completed

Responsible Individual: Allan Pohl

Finding Number: 630203
Finding Title: Allowable Costs

Management Views: This questioned cost was initiated as a personnel/payroll transaction. This cost was recorded in the Relational Standard Accounting and Reporting System (R*STARS), the State's accounting and financial reporting system, using comptroller object code 3620, "Back Pay - Class Emp," generated by the Human Resources Management Network. Back wages, in general, are an eligible federal cost.

The payment was a settlement equal to one year of salary to a dismissed employee. Because the employee did not work during the period that the payment was made, the payment was ineligible for reimbursement.

We agree that this cost should not have been charged to the federal grant. However, because we

overmatched this grant with \$229,418 of eligible costs, we feel that no adjustment is necessary.

We will exclude this type of cost on any future grant billings.

Corrective Action:

CIS initiated a procedure in cooperation with the Office of Human Resources to ensure that an error of this type does not reoccur in future fiscal years.

Anticipated Completion Date: Completed

Responsible Individual: Allan Pohl

Glossary of Acronyms and Terms

CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CIS	Department of Consumer and Industry Services.
FFP	federal financial participation.
FIA	Family Independence Agency.
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.
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 programs or on the financial schedule and/or financial statement amounts.

material weaknesses	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.
MCACA	Michigan Council for Arts and Cultural Affairs.
MSHDA	Michigan State Housing Development Authority.
OMB	U.S. Office of Management and Budget.
qualified opinion	<p>An auditor's opinion in which the auditor:</p> <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.

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 *Government Auditing Standards* 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 with OMB Circular A-133.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

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.