

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

October 1, 2001 through September 30, 2003

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information may be accessed at:

*<http://audgen.michigan.gov>*



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

**Financial Audit**

*Including the Provisions of the Single Audit Act  
 October 1, 2001 through September 30, 2003*

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

**Report Number:  
 63-100-04**

**Released:  
 June 2004**

*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.

~ ~ ~ ~ ~

**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 3 programs as major programs and issued 3 unqualified opinions. The federal programs audited as major programs 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 reportable conditions (Findings 1 and 2).

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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 and 2).

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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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**Background:**

On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed CIS as the Department of Labor

and Economic Growth (DLEG). The Executive Order also transferred programs and administrative functions from the Michigan Department of Career Development to DLEG, transferred various federal programs from DLEG to the Department of Community Health and the Family Independence Agency, and transferred programs from the Family Independence Agency to DLEG. Executive Order No. 2003-18 became effective December 7, 2003.

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
81.041	State Energy Program	Unqualified
93.575	Child Care and Development Block Grant	Unqualified
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: <http://audgen.michigan.gov>



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201 N. Washington Square  
Lansing, Michigan 48913

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

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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

June 25, 2004

Mr. David C. Hollister, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Hollister:

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, 2001 through September 30, 2003.

This report contains our report summary; our independent auditor's report on the financial schedules; and CIS's financial schedules, notes to the financial schedules, and schedule of expenditures of federal awards. 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, the 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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INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL SCHEDULES



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

## Independent Auditor's Report on the Financial Schedules

March 26, 2004

Mr. David C. Hollister, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. 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.

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 financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Consumer and Industry Services' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity 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 revenues and transfers and the sources and disposition of authorizations of the Department of Consumer and Industry Services for the fiscal years ended September 30, 2003 and September 30, 2002, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2004 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 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*, is presented for purposes of additional analysis and is 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

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

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of General Fund Revenues and Transfers  
Fiscal Years Ended September 30

	2003	2002
REVENUES		
Tax		
Beer and wine	\$ 51,114,376	\$ 50,012,089
Insurance company premium tax	12,459,864	7,444,065
Liquor tax	31,114,911	29,915,224
Total Tax Revenues	\$ 94,689,150	\$ 87,371,379
Federal		
Department of Energy	\$ 1,695,570	\$ 1,376,068
Department of Health and Human Services	19,913,642	22,219,921
Department of Labor	10,741,728	11,326,347
Department of Transportation	257,011	586,136
Other federal agencies	97,307	141,192
Total Federal Revenues	\$ 32,705,258	\$ 35,649,663
Services	\$ 2,866,774	\$ 3,689,289
Licenses and permits	\$ 132,517,774	\$ 125,721,842
Miscellaneous	\$ 72,178,285	\$ 74,861,062
Total Revenues	\$ 334,957,241	\$ 327,293,234
TRANSFERS (Note 2)		
Transfers From Liquor Purchase Revolving Fund	\$ 130,548,170	\$ 126,142,523
Total Transfers	\$ 130,548,170	\$ 126,142,523
Total Revenues and Transfers	\$ 465,505,411	\$ 453,435,757

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

	2003	2002
<b>SOURCES OF AUTHORIZATIONS (Note 3)</b>		
General purpose appropriations	\$ 32,900,464	\$ 37,896,700
Budgetary transfers in (out)		(1,925,551)
Balances carried forward	103,353,932	71,025,210
Restricted financing sources	208,511,770	230,309,678
Less: Intrafund expenditure reimbursements	(76,209)	(71,208)
	\$ 344,689,956	\$ 337,234,829
<b>DISPOSITION OF AUTHORIZATIONS (Note 3)</b>		
Gross expenditures and transfers out	\$ 227,787,104	\$ 230,067,671
Less: Intrafund expenditure reimbursements	(76,209)	(71,208)
Net expenditures and transfers out	\$ 227,710,895	\$ 229,996,463
Balances carried forward:		
Encumbrances	\$ 170,678	\$ 1,448,179
Restricted revenues - authorized	113,889	103,262
Restricted revenues - not authorized/used	113,131,819	101,802,490
Total balances carried forward	\$ 113,416,386	\$ 103,353,932
Balances lapsed	\$ 3,562,676	\$ 3,884,434
	\$ 344,689,956	\$ 337,234,829

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, 2003 and September 30, 2002. 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)*.

On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed CIS as the Department of Labor and Economic Growth. Executive Order No. 2003-18 became effective December 7, 2003.

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; and Pension Benefits and Other Postemployment Benefits.

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) 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 periodic financial audit.
- (2) 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) 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. The Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund are 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 Trust Funds; and Insurance Carrier Deposits Fund. These funds receive no federal financing and are periodically audited by the Office of the Auditor General.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules include only the revenues and transfers and the sources and disposition of authorizations for CIS's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either CIS or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Transfers From the Liquor Purchase Revolving Fund

The transfers from the Liquor Purchase Revolving Fund for fiscal years 2002-03 and 2001-02, respectively, were statutory transfers of Fund profits (\$126.8 million and \$118.2 million, respectively) and transfers for grants to cities, villages, and townships with State-owned facilities for fire protection services (\$3.7 million and \$7.9 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 revenues.
- b. Budgetary transfers out: CIS transferred, per Act 63, P.A. 2001, all the statutory authority, powers, duties, functions, and responsibilities of the Michigan Council for Arts and Cultural Affairs to the Department of History, Arts and Libraries. Act 63, P.A. 2001, became effective August 6, 2001. The budgetary transfers out represent spending authorization that was transferred to the Department of History, Arts and Libraries as a result of Act 63, P.A. 2001.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - 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 revenues - not authorized.
- d. Restricted financing sources: Collections of restricted revenues, 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 revenues - authorized or restricted revenues - 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.
- f. Restricted revenues - not authorized/used: Revenues that, by statute, are restricted for use to a particular program or activity. CIS may not expend the revenue without additional legislative authorization. Significant examples of this type were for the Low Income/Energy Efficiency Fund (\$18.3 million and \$33.0 million in fiscal years 2002-03 and 2001-02, respectively), insurance and consumer fees (\$21.3 million and \$16.2 million in fiscal years 2002-03 and 2001-02, respectively), and remonumentation fees (\$9.8 million and \$7.1 million in fiscal years 2002-03 and 2001-02, respectively).

This line item also includes the carry-forward of restricted revenues to finance encumbrances for the programs that collect the revenues. Significant carry-forwards of this type were for remonumentation fees (\$3.6 million and \$3.5 million in fiscal years 2002-03 and 2001-02, respectively) and the Low Income/Energy Efficiency Fund (\$9.6 million in fiscal year 2002-03).

Note 4 Subsequent Events

On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed CIS as the Department of Labor and Economic Growth (DLEG). The Executive Order also transferred programs and administrative functions from the Michigan Department of Career Development to DLEG, transferred various federal programs from DLEG to the Department of Community Health and the Family Independence Agency, and transferred programs from the Family Independence Agency to DLEG. Executive Order No. 2003-18 became effective December 7, 2003.

The Executive Order transferred the following federal programs to the Department of Community Health:

Emergency Medical Services for Children, *CFDA* 93.127  
Rural Access to Emergency Devices Grant, *CFDA* 93.259  
State Survey and Certification of Health Care Providers and Suppliers,  
*CFDA* 93.777  
Medical Assistance Program (Medicaid), *CFDA* 93.778  
Cooperative Agreements for State-Based Comprehensive Breast and  
Cervical Cancer Early Detection Programs, *CFDA* 93.919  
Preventive Health and Health Services Block Grant, *CFDA* 93.991  
Bioterrorism Training and Curriculum Development Program,  
*CFDA* 93.996  
Clinical Laboratory Improvement Amendments Program, *CFDA* 93.V23

The Executive Order transferred the following federal programs to the Family Independence Agency:

Child Care and Development Block Grant, *CFDA* 93.575  
Foster Care - Title IV-E, *CFDA* 93.658.

SUPPLEMENTAL  
FINANCIAL SCHEDULE

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2001 through September 30, 2003

For the Fiscal Year Ended September 30, 2002

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Housing and Urban Development</u></b>					
Direct Program:					
Manufactured Home Construction and Safety Standards	14.171		\$ 5,475	\$	\$ 5,475
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 5,475</b>	<b>\$ 0</b>	<b>\$ 5,475</b>
<b><u>U.S. Department of Labor</u></b>					
Direct Programs:					
Compensation and Working Conditions	17.005		\$ 150,399	\$	\$ 150,399
Occupational Safety and Health - State Program	17.503		9,565,078		9,565,078
Consultation Agreements	17.504		1,513,793		1,513,793
Mine Health and Safety Grants	17.600			86,612	86,612
<b>Total U.S. Department of Labor</b>			<b>\$ 11,229,270</b>	<b>\$ 86,612</b>	<b>\$ 11,315,882</b>
<b><u>U.S. Department of Transportation</u></b>					
Direct Program:					
Pipeline Safety	20.700		\$ 262,769	\$ 323,367	\$ 586,136
<b>Total U.S. Department of Transportation</b>			<b>\$ 262,769</b>	<b>\$ 323,367</b>	<b>\$ 586,136</b>
<b><u>U.S. Department of Energy</u></b>					
Direct Programs:					
National Energy Information Center	81.039		\$ 14,419	\$	\$ 14,419
State Energy Program	81.041		704,104	292,862	996,966
Regional Biomass Energy Programs	81.079			31,247	31,247
Conservation Research and Development	81.086				0
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105			182,636	182,636
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117			9,606	9,606
State Energy Program Special Projects	81.119			141,195	141,195
<b>Total U.S. Department of Energy</b>			<b>\$ 718,523</b>	<b>\$ 657,546</b>	<b>\$ 1,376,069</b>
<b><u>U.S. Department of Health and Human Services</u></b>					
Child Care Cluster					
Pass-Through Program:					
Michigan Family Independence Agency					
Child Care and Development Block Grant	93.575	02-IA-19	\$ 8,101,222	\$	\$ 8,101,222
Total Child Care Cluster			<b>\$ 8,101,222</b>	<b>\$ 0</b>	<b>\$ 8,101,222</b>
Medicaid Cluster					
Direct Program:					
State Survey and Certification of Health Care Providers and Suppliers	93.777		\$ 6,755,322	\$	\$ 6,755,322

For the Fiscal Year Ended September 30, 2003

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$ 97,219	\$	\$ 97,219	\$ 102,694
	<b>\$ 97,219</b>	<b>\$ 0</b>	<b>\$ 97,219</b>	<b>\$ 102,694</b>
	\$ 141,351	\$	\$ 141,351	\$ 291,750
	9,244,164		9,244,164	18,809,242
	1,356,213		1,356,213	2,870,006
			0	86,612
	<b>\$ 10,741,728</b>	<b>\$ 0</b>	<b>\$ 10,741,728</b>	<b>\$ 22,057,610</b>
	\$ 250,011	\$ 7,000	\$ 257,011	\$ 843,147
	<b>\$ 250,011</b>	<b>\$ 7,000</b>	<b>\$ 257,011</b>	<b>\$ 843,147</b>
	\$ 4,774		\$ 4,774	\$ 19,193
	738,180	464,661	1,202,841	2,199,807
		35,263	35,263	66,510
		76,366	76,366	76,366
		64,575	64,575	247,211
		61,348	61,348	70,954
		250,403	250,403	391,598
	<b>\$ 742,954</b>	<b>\$ 952,616</b>	<b>\$ 1,695,570</b>	<b>\$ 3,071,639</b>
03-IA-02	\$ 6,137,519	\$	\$ 6,137,519	\$ 14,238,741
	<b>\$ 6,137,519</b>	<b>\$ 0</b>	<b>\$ 6,137,519</b>	<b>\$ 14,238,741</b>
	\$ 6,442,230	\$	\$ 6,442,230	\$ 13,197,552

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2001 through September 30, 2003  
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Program:					
Michigan Department of Community Health Medical Assistance Program (Medicaid)	93.778	05-0205-MI-5001	\$ 4,861,615	\$	\$ 4,861,615
Total Medicaid Cluster			<u>\$ 11,616,937</u>	<u>\$ 0</u>	<u>\$ 11,616,937</u>
Direct Programs:					
Emergency Medical Services for Children	93.127		\$ 201,632	\$	\$ 201,632
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197			39,641	39,641
Rural Access to Emergency Devices Grant	93.259				0
Occupational Safety and Health Research Grants	93.262			149,193	149,193
Clinical Laboratory Improvement Amendments Program	93.V23 (3)		313,092		313,092
Total Direct Programs			<u>\$ 514,724</u>	<u>\$ 188,834</u>	<u>\$ 703,558</u>
Pass-Through Programs:					
Michigan Family Independence Agency Foster Care-Title IV-E	93.658	IA-02-23	\$ 612,326		\$ 612,326
Michigan Department of Community Health Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	MDCH01631001	15,000		15,000
Preventive Health and Health Services Block Grant	93.991	00-B1-MI-PRVS	680,382		680,382
Bioterrorism Training and Curriculum Development Program	93.996				0
Total Pass-Through Programs			<u>\$ 1,307,708</u>	<u>\$ 0</u>	<u>\$ 1,307,708</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>\$ 21,540,591</b></u>	<u><b>\$ 188,834</b></u>	<u><b>\$ 21,729,425</b></u>
Total Expenditures of Federal Awards			<u>\$ 33,756,628</u>	<u>\$ 1,256,359</u>	<u>\$ 35,012,987</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Consumer and Industry Services 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) CFDA number is not available. Number derived from federal agency number and grant or contract number, if available.

Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003			Total Expended and Distributed for the Two-Year Period
	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
05-0305-MI-5001	\$ 4,758,345	\$	\$ 4,758,345	\$ 9,619,960
	\$ 11,200,575	\$ 0	\$ 11,200,575	\$ 22,817,512
	\$ 79,036	\$	\$ 79,036	\$ 280,668
		24,476	24,476	64,117
	249,318		249,318	249,318
	69,177	206,432	275,609	424,802
	312,552		312,552	625,644
	\$ 710,083	\$ 230,908	\$ 940,991	\$ 1,644,549
03-IA-05	\$ 579,464	\$	\$ 579,464	\$ 1,191,790
MDCH01631001	15,000		15,000	30,000
251019/03	644,197		644,197	1,324,579
252232/02	46,122		46,122	46,122
	\$ 1,284,783	\$ 0	\$ 1,284,783	\$ 2,592,491
	\$ 19,332,960	\$ 230,908	\$ 19,563,868	\$ 41,293,293
	\$ 31,164,872	\$ 1,190,524	\$ 32,355,396	\$ 67,368,383

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INDEPENDENT AUDITOR'S REPORTS ON  
COMPLIANCE AND INTERNAL CONTROL



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AUDITOR GENERAL

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

March 26, 2004

Mr. David C. Hollister, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents, and have issued our report thereon dated March 26, 2004. 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*.

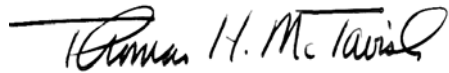
### Internal Control Over Financial Reporting

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 internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

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



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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 26, 2004

Mr. David C. Hollister, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Hollister:

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 two-year period ended September 30, 2003. 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.

In our opinion, the Department of Consumer and Industry Services complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2003. 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 1 and 2.

#### 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 internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving 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 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 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 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 internal control over compliance would not necessarily disclose all matters in 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 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.

Sincerely,

Thomas H. McTavish, C.P.A.  
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 conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
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>
81.041	State Energy Program
93.575	Child Care and Development Block Grant
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$2,021,051

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 (630401)**

#### **1. State Energy Program, CFDA 81.041**

U.S. Department of Energy	CFDA 81.041: State Energy Program
Award Number: DE-FG45-96R530334 DE-FG45-02R530544	Award Period: 10/01/1996 - 09/30/2002 10/01/2002 - 09/30/2007
	Questioned Costs: \$11,122

\* See glossary at end of report for definition.

The Department of Consumer and Industry Services' (CIS's) controls over the State Energy Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient\* monitoring.

Controls that do not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of State Energy Program awards.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

CIS included terminal leave payments as direct federal expenditures in fiscal year 2002-03 without approval from the federal awarding agency.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, prohibits the direct charging of terminal leave payments to federal grant programs unless the state obtains approval from the federal awarding agency.

We identified \$11,122 of terminal leave payments that CIS directly charged to the State Energy Program during fiscal year 2002-03.

As a result, we questioned costs in the amount of \$11,122.

b. Subrecipient Monitoring

CIS had not established controls to ensure that it met its pass-through entity responsibilities as established by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133 establishes the responsibilities for pass-through entities that provide federal funds to subrecipients that carry out federal programs. CIS's State Energy Program passed through \$464,661 to 46 subrecipients and \$292,861 to 45 subrecipients in fiscal years 2002-03 and 2001-02, respectively.

\* See glossary at end of report for definition.

Our review of 8 State Energy Program subrecipient files disclosed:

- (1) CIS did not notify any of the subrecipients of the correct *CFDA* title and number. Section 400(d) of OMB Circular A-133 requires that pass-through entities identify federal awards by informing each subrecipient of the *CFDA* title and number.
- (2) CIS did not determine if any of the subrecipients complied with the audit requirements for the fiscal year in which they incurred program expenditures. CIS did not identify which subrecipients were required to have a Single Audit\* performed and did not ensure that subrecipients submitted a copy of the Single Audit to CIS when required. As a result, CIS was unable to determine if the subrecipients' Single Audits disclosed any audit findings that required CIS to issue a management decision and follow up on corrective action. Section 400(d) of OMB Circular A-133 requires that pass-through entities ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements for that fiscal year.

CIS performed other subrecipient monitoring functions, such as reviewing program reports and related documentation, reviewing quarterly financial reports, and performing site visits. While these functions did not fully satisfy CIS's pass-through entity responsibilities, they did provide CIS with reasonable assurance that the subrecipients administered federal awards in compliance with the federal requirements.

Subsequent to our audit period, Executive Order No. 2003-18 renamed CIS as the Department of Labor and Economic Growth (DLEG). Executive Order No. 2003-18 became effective December 7, 2003. Therefore, the following recommendation is addressed to DLEG.

## **RECOMMENDATION**

We recommend that DLEG improve its controls over the State Energy Program to help ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

\* See glossary at end of report for definition.

## **FINDING (630402)**

### **2. Child Care and Development Block Grant (CCDBG), CFDA 93.575**

U.S. Department of Health and Human Services	CFDA 93.575: Child Care and Development Block Grant
Award Number: 02-IA-19 03-IA-02	Award Period: 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
Pass-Through Agency: Michigan Family Independence Agency	Questioned Costs: \$413,772

CIS's controls over CCDBG did not ensure compliance with federal laws and regulations and interagency grant agreement requirements regarding allowable costs/cost principles and reporting.

Controls that do not ensure compliance with federal laws and regulations and interagency grant agreement requirements could result in sanctions, disallowances, and/or future reductions of CCDBG awards.

Our exceptions, by compliance area, are as follows:

#### **a. Allowable Costs/Cost Principles**

CIS included terminal leave payments as direct federal expenditures in fiscal years 2002-03 and 2001-02 without approval from the federal awarding agency or the pass-through entity.

OMB Circular A-87 prohibits the direct charging of terminal leave payments to federal grant programs unless the state obtains approval from the federal awarding agency.

We identified \$349,437 and \$64,335 of terminal leave payments that CIS directly charged to CCDBG during fiscal years 2002-03 and 2001-02, respectively. CIS had not requested or received approval from the federal awarding agency to include these as direct charges.

As a result, we questioned costs in the amount of \$413,772.

b. Reporting

CIS did not retain documentation to support program statistics reported in its quarterly program reports. Additionally, CIS did not provide all of the required statistics in the quarterly and annual program reports.

As a result of the lack of supporting documentation, we could not verify the accuracy of the quarterly program reports. Not providing all of the required statistics lessens the pass-through entity's ability to evaluate the effectiveness of the child day care licensing program as a whole and prevents detailed analysis of various aspects of the program.

The Family Independence Agency (FIA) is the State of Michigan's lead agency for the CCDBG Program and receives all of the grant funds directly from the U.S. Department of Health and Human Services. The CCDBG Program's federal regulations define allowable activities as including activities to improve the quality of child care services, including improving the monitoring of compliance with, and enforcement of, State requirements. As allowed by the federal regulations, FIA passed through CCDBG funds to CIS for child day care licensing activities. This arrangement was documented in an interagency agreement between FIA and CIS.

The interagency agreement required that CIS report quarterly on the number of actions taken by type of action. An action was defined as an original license issue, a license renewal, an interim on-site visit to a licensed child day care center or group home, a 90-day on-site visit to a family home, or an on-site visit to a sample of 10% of the registered family homes. The interagency agreement also required that CIS identify the total number of licensed child day care centers, group homes, and registered family homes that were licensed or registered at the end of each quarter. The agreement further required that CIS provide FIA with an annual program performance measure report detailing yearly statistics on original issuances, renewals, complaints, orientations, and the total number of facilities by type.

Our review of CCDBG reporting disclosed:

- (1) CIS could not provide documentation to support the number of action totals included on its quarterly and annual reports. CIS used a software

package to record and monitor licensing and complaint investigation activities. CIS generated summary totals for the quarterly reports using the software package, but it did not generate or maintain detailed reports of which child day care facilities made up the totals. At the time of our audit fieldwork, CIS could not replicate the summary totals and could not provide information on which child day care facilities were included in the totals. We obtained a copy of the database information and our summary of the detailed information resulted in different totals than were reported in the quarterly reports.

- (2) CIS did not provide information on 90-day on-site visits in the quarterly reports or complaint and orientation counts in the annual program performance measure reports.

Executive Order No. 2003-18 transferred CCDBG from CIS to FIA effective December 7, 2003. As a result, FIA will be responsible for corrective action for this finding.

### **RECOMMENDATION**

We recommend that FIA improve controls over CCDBG to help ensure compliance with federal laws and regulations and interagency grant agreement requirements regarding allowable costs/cost principles and reporting.

**The status of the findings related to federal awards that were reported in the 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, 2003

**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, 1999 through September 30, 2001

**Finding Number:** 630201

**Finding Title:** Eligible Activities

**Finding:** 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.

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

**Audit Period:** October 1, 1999 through September 30, 2001

**Finding Number:** 630202

**Finding Title:** Federal Financial Participation (FFP) Requirements

**Finding:** 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.

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



**Audit Period:** October 1, 1999 through September 30, 2001  
**Finding Number:** 630203  
**Finding Title:** Allowable Costs

**Finding:** 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.

**Comments:** CIS initiated a procedure to ensure that an error of this type does not reoccur in future fiscal years.

DEPARTMENT OF LABOR AND ECONOMIC GROWTH  
AND FAMILY INDEPENDENCE AGENCY\*

Corrective Action Plan

As of June 8, 2004

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

There were no findings related to the financial schedules for fiscal years 2001-02 and 2002-03.

**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 630401

**Finding Title:** State Energy Program, *CFDA* 81.041

**Management Views:** The Department of Labor and Economic Growth (DLEG) agrees with the finding.

**Corrective Action:**

- a. Allowable Costs/Cost Principles  
DLEG has developed a policy to address terminal leave payments and has communicated it to the appropriate accounting personnel.
- b. Subrecipient Monitoring  
DLEG has recently consolidated its internal auditing and subrecipient monitoring functions. This new unit, Internal Audit & Monitoring Division, will handle the subrecipient monitoring responsibilities for the entire department. The Internal Audit & Monitoring Division is currently revising its policies and procedures to ensure compliance with U.S. Office of Management and Budget (OMB) Circular A-133.

**Anticipated Completion Date:** January 1, 2005

**Responsible Individual:** Allen Williams, Director, Internal Audit & Monitoring Division

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**Finding Number:** 630402

**Finding Title:** Child Care and Development Block Grant, *CFDA* 93.575

**Management Views:** The Family Independence Agency (FIA) agrees with the finding and will comply.

**Corrective Action:** As a result of Executive Order No. 2003-18, FIA will now administer the program directly and the subrecipient relationship will be eliminated. FIA's Bureau of Accounting has controls in place to ensure that terminal leave payments are treated in accordance with OMB Circular A-87 requirements. As the program is merged into the FIA control structure, federal reporting requirements will be reviewed and controls will be established which ensure that required statistics are generated and supporting documentation is retained.

**Anticipated Completion Date:** October 1, 2004

**Responsible Individual:** Director, Office of Children and Adult Licensing

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\* On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed the Department of Consumer and Industry Services as the Department of Labor and Economic Growth (DLEG). The Executive Order became effective December 7, 2003. The Executive Order also transferred the Child Care and Development Block Grant (*CFDA* 93.575) from DLEG to the Family Independence Agency. As a result, the Family Independence Agency will be responsible for corrective action on Finding 630402.

# GLOSSARY

## Glossary of Acronyms and Terms

<b>CCDBG</b>	Child Care and Development Block Grant, <i>CFDA</i> 93.575.
<b>CFDA</b>	<i>Catalog of Federal Domestic Assistance.</i>
<b>CIS</b>	Department of Consumer and Industry Services.
<b>DLEG</b>	Department of Labor and Economic Growth.
<b>FFP</b>	federal financial participation.
<b>FIA</b>	Family Independence Agency.
<b>financial audit</b>	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.
<b>internal control</b>	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.
<b>low-risk auditee</b>	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.
<b>material misstatement</b>	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.

<b>material noncompliance</b>	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
<b>material weakness</b>	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.
<b>OMB</b>	U.S. Office of Management and Budget.
<b>questioned cost</b>	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.
<b>reportable condition</b>	A matter coming to the auditor's attention relating to a significant 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 in accordance 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 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.