



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Including the Provisions of the Single Audit Act
Department of Corrections

Report Number:
 47-100-06

October 1, 2003 through September 30, 2005

Released:
 June 2006

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 the Department of Corrections' (DOC'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 or Other Matters Material to the Financial Schedules

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify a reportable condition (Finding 1).

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**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 6 programs as major programs and issued 6 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 report any findings related to internal control over major programs.

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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 2 and 3).

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Systems of Accounting and Internal Control:

We determined that DOC was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.



We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program or Cluster Title</u>	<u>Compliance Opinion</u>
10.553 and 10.555	Child Nutrition Cluster	Unqualified
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	Unqualified
16.593	Residential Substance Abuse Treatment for State Prisoners	Unqualified
16.606	State Criminal Alien Assistance Program	Unqualified
84.002	Adult Education - State Grant Program	Unqualified
84.331	Grants to States for Incarcerated Youth Offenders	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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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 27, 2006

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Ms. Caruso:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 2003 through September 30, 2005.

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

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

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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

Independent Auditor's Report on the Financial Schedules

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Ms. Caruso:

We have audited the accompanying financial schedules of the Department of Corrections for the fiscal years ended September 30, 2005 and September 30, 2004, 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 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Department of the Correction's 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 the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 2005 and September 30, 2004 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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*, and other supplemental financial schedules, as identified in the table of contents, 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

March 10, 2006

DEPARTMENT OF CORRECTIONS
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	2005	2004
REVENUES		
From federal agencies (Note 3)	\$ 4,052,211	\$ 22,840,646
From local agencies	393,600	391,100
From services:		
Resident stores	4,059,243	3,570,300
Public Works Program reimbursements	1,142,414	1,175,397
Other	131,272	186,263
Miscellaneous:		
Telephone fees and commissions	9,915,363	9,126,277
Civil infraction fees	7,138,932	7,131,826
Oversight fees	9,445,953	10,229,757
Tether Program contributions	2,108,449	2,485,892
Community Residential Program fees	50,816	256,335
Other	971,793	2,147,050
	<u>\$ 39,410,046</u>	<u>\$ 59,540,843</u>

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

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

SOURCES OF AUTHORIZATIONS (Note 2)	<u>2005</u>	<u>2004</u>
General purpose appropriations	\$ 1,688,886,300	\$ 1,601,971,297
Budgetary transfers in (out)		
Budgetary adjustment	134,384	
Balances carried forward	34,118,127	43,449,297
Restricted financing sources (Notes 3 and 4)	38,634,755	58,361,044
Less: Intrafund expenditure reimbursements		<u>(1,967,936)</u>
 Total	 <u>\$ 1,761,773,566</u>	 <u>\$ 1,701,813,702</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out (Note 4)	\$ 1,741,942,995	\$ 1,636,131,651
Less: Intrafund expenditure reimbursements		<u>(1,967,936)</u>
Net expenditures and transfers out	<u>\$ 1,741,942,995</u>	<u>\$ 1,634,163,715</u>
Balances carried forward:		
Encumbrances	\$ 13,633,538	\$ 25,465,573
Restricted revenues - not authorized	4,215,575	8,652,554
Total balances carried forward	<u>\$ 17,849,113</u>	<u>\$ 34,118,127</u>
Balances lapsed (Note 4)	<u>\$ 1,981,458</u>	<u>\$ 33,531,860</u>
 Total	 <u>\$ 1,761,773,566</u>	 <u>\$ 1,701,813,702</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC) for the fiscal years ended September 30, 2005 and September 30, 2004. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and Miscellaneous Trust Accounts Fund, which are audited separately.

The notes accompanying these financial schedules relate directly to DOC. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits and other postemployment benefits; and leases.

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 present only the revenues and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DOC or the

State's General Fund in conformity with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- c. Budgetary adjustment: An adjustment made in fiscal year 2004-05 by the Office of Financial Management to provide authorization for the payroll and fringe benefit accrual recorded in fiscal year 2003-04.
- d. 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.
- e. 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.

- f. Intrafund expenditure reimbursements: Funding from other DOC General Fund accounts to finance a program. The reimbursements consist of expenditure credits from Jackson area facilities to finance the Jackson area's food service operations. DOC recorded expenditure credits totaling \$1.9 million to finance its food service operations in fiscal year 2003-04. DOC discontinued its central food service operation for fiscal year 2004-05.
- g. Expenditures and transfers out: Charges incurred for work performed, supplies and materials delivered, services rendered, and grants, regardless of whether payment has been made.
- h. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- i. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant restricted revenues - not authorized for DOC included \$4,025,673 and \$6,259,828 for fiscal years 2004-05 and 2003-04, respectively, from parolee and probationary supervision fees. Section 791.225a of the *Michigan Compiled Laws* restricts 20% of parolee and probationary supervision fees for administrative and enhanced services costs. Enhanced services include, but are not limited to, the purchase of services for parolees, such as counseling, employment training, employment placement, or education; public transportation expenses related to training, counseling, or employment; enhancement of staff performance through specialized training and equipment purchase; and purchase of items for parolee employment. The restricted revenues - not authorized represent the unexpended balance of this money.
- j. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Federal Revenues and Restricted Financing Sources

Federal revenues and restricted financing sources declined in fiscal year 2004-05 primarily because of a drop of \$17.1 million in revenues from the Violent Offender Incarceration and Truth in Sentencing Incentive Grants Program. DOC had expended the remainder of its prior year grant authority in fiscal year 2003-04.

Note 4 Payroll and Fringe Benefit Accrual

In fiscal year 2003-04, the Office of Financial Management, Department of Management and Budget, changed its method of computing and recording the accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. The Office of Financial Management has issued a waiver that allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. The schedule of sources and disposition of General Fund authorizations includes DOC's share of the accrued payroll expenditures, reflected as a \$12,682,451 increase to expenditures and transfers out; a \$134,384 increase to restricted financing sources; and a \$12,548,068 decrease to balances lapsed for the fiscal year ended September 30, 2004. In fiscal year 2004-05, accrued payroll and fringe benefits of \$18.1 million were recorded by DOC.

Note 5 Contingencies

DOC is party to various legal proceedings seeking damages, injunctive relief, or other relief. The ultimate dispositions and consequences of these proceedings are not presently determinable. However, in the opinion of the Attorney General of the State and DOC, the lawsuits pending that may have a significant effect, if resolved unfavorably, on DOC's programs or finances included the following:

- a. *Curtis Harris v Unknown Kilpapr, et al.*: Plaintiff is a prisoner who is alleging that staff demonstrated deliberate indifference when he became paralyzed for about 40 minutes on December 30, 2003. Plaintiff claims that again on June 2, 2004, he became weak and again became paralyzed. He claims the health care staff believed him to be faking the incidents and did not send him to the hospital. On June 6, 2004, plaintiff was found unconscious on the floor. He was taken to the hospital where a

brain aneurysm was diagnosed. He had an endovascular procedure the next morning.

On September 28, 2005, the Department of Attorney General filed a motion to dismiss. However, plaintiff filed an amended complaint on October 6, 2005, curing the defect. The Attorney General will file an additional motion to dismiss the complaint in the near future. The case is still at a very early stage, and there has been no discovery to date. Plaintiff is requesting \$15 million in compensatory and punitive damages.

- b. *Bonita Clark Murphy v Brian Foreback, Judith Hoard, and Kristine Wakefield*: Plaintiff, as personal representative of the estate of Jeffrey Clark, deceased, claims that defendants ignored and failed to obtain medical treatment for Mr. Clark. He died in his cell on July 3, 2002, as a result of dehydration and/or the effects of same. Another case regarding the same issue named 19 defendants.

On February 23, 2005 and March 3, 2005, the district court issued its opinions and order granting in part and denying in part the defendants' motions for summary judgment. Interlocutory appeals were filed with the Sixth Circuit Court of Appeals. At issue was whether the district court properly denied qualified immunity to 15 DOC employees. On February 6, 2006, the Sixth Circuit Court of Appeals issued an opinion affirming the denial of qualified immunity as to 11 employees and reversed it as to 4 of them. The matter is expected to proceed to trial. Plaintiff seeks in excess of \$25 million.

- c. *Gregory Figel v Daniel Stasewich, et al.*: Plaintiff is a prisoner who alleges that between November 1, 2003 and February 25, 2005, he was subjected to retaliatory incidents because he refused to "put a hit" on another prisoner and for filing numerous grievances. He alleges that he is subjected to cruel and unusual punishment, denial of due process, and denial of access to the courts. This case alleges a continuation of the retaliation that is part of another lawsuit pending in federal court, 2:03-CV-206.

Motion for dismissal is pending. Plaintiff is seeking a restraining order against the 21 defendants and states that he does not want to be housed

at Alger Maximum Correctional Facility, Marquette Branch Prison, or Baraga Maximum Correctional Facility. He is seeking compensation in the amount of \$2.5 million and \$2.5 million in punitive damages.

- d. *Tracy Neal, et al. v McGinnis, et al.*: This case involves female prisoners alleging sexual harassment, assault, retaliation, and overfamiliarity by male officers. It was filed in 1996. The case has been certified as a class action and is consolidated with a second court-certified class action asserting nearly identical claims (*Anderson v MDOC*, Court of Claims No. 03-162-MZ). Currently, the identified class includes over 400 individuals. Many aspects of the case have been argued at the lower court, Court of Appeals, and Supreme Court levels. On December 27, 2005, the Supreme Court issued an order remanding the cases back to the Court of Appeals to consider the defendants-appellants' argument on the applicability of the Prisoner Litigation Reform Act. The plaintiffs-appellees' application for leave to appeal as cross-appellant was denied and their motion to lift stay and to dismiss application was denied also. Therefore, the cases are in the Court of Appeals again. In addition to specific injunctive relief regarding DOC's policies, practice, acts, and omissions, the plaintiffs seek compensation to the class and individuals for severe emotional psychological injuries; physical injuries and damages; loss of freedom; loss of education, employment, and rehabilitation opportunities; loss of privileges and income; and punitive and exemplary damages, as well as attorney fees and costs. The amount of possible compensation cannot be estimated at this time.

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SUPPLEMENTAL
FINANCIAL SCHEDULES

DEPARTMENT OF CORRECTIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 2005

Appropriation Unit	Sources of Authorizations					Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Budgetary Adjustment	Balances Carried Forward	Restricted Financing Sources	
Central Administration						
Executive	\$ 47,463,000	\$ (1,355,000)	\$	\$ 107,624	\$ 47,135	\$ 46,262,760
Administration and Programs	49,468,100	(35,000)		3,316,468	607,096	53,356,664
Field Operations	141,607,700	(3,900,000)		8,379,476	11,223,030	157,310,207
Office of Community Corrections	27,983,800	(5,100,000)		3,708,763	17,435,458	44,028,021
Consent Decrees	100,713,600	(64,901,000)		458,598		36,271,198
Office of Health Care	62,549,000	(990,000)		39,217		61,598,217
Clinical Operations	104,161,800	4,000,000		466,857	131,272	108,759,929
Correctional Facilities - Administration	71,723,000	(35,780,600)		82,130	2,560,681	38,585,211
Information Technology	13,312,500				500,000	13,812,500
Subtotal for Central Administration	\$ 618,982,500	\$ (108,061,600)	\$ 0	\$ 16,559,133	\$ 32,504,673	\$ 559,984,706
Facility Operations						
Alger Maximum Correctional Facility - Munising	\$ 28,679,100	\$ 1,400,000	\$	\$ 18,995	\$ 58,277	\$ 30,156,373
Baraga Maximum Correctional Facility - Baraga	32,890,500	1,545,000		46,274	152,321	34,634,095
Bellamy Creek Correctional Facility - Ionia	39,993,000	1,500,000		13,558	165,001	41,671,559
Earnest C. Brooks Correctional Facility - Muskegon	40,405,500	340,000		254,399	201,522	41,201,420
Carson City Correctional Facility - Carson City	42,972,900	200,000		413,017	258,754	43,844,672
Chippewa Correctional Facility - Kincheloe	42,686,600	(100,000)		908,853	194,629	43,690,082
Cooper Street Correctional Facility - Jackson	23,383,900	(1,190,000)		77,430	229,035	22,500,365
G. Robert Cotton Correctional Facility - Jackson	35,359,200	198,000		311,240	165,029	36,033,470
Charles E. Egeler Correctional Facility - Jackson	49,632,600	10,601,000		645,254	968,695	61,847,550
Richard A. Handlon Correctional Facility - Ionia	22,181,500	645,000		14,505	119,612	22,960,616
Gus Harrison Correctional Facility - Adrian	41,271,500	1,450,000		153,837	265,628	43,140,965
Huron Valley Complex - Ypsilanti		66,240,600		1,636,525	194,785	68,071,910
Ionia Maximum Correctional Facility - Ionia	26,078,900	950,000		10,596	33,265	27,072,761
Kinross Correctional Facility - Kincheloe	49,092,900	1,413,400		137,092	294,531	50,937,924
Lakeland Correctional Facility - Coldwater	57,157,600	(19,000)		1,629,056	353,109	59,120,766
Macomb Correctional Facility - New Haven	26,191,600	(356,000)		115,203	145,743	26,096,546
Marquette Branch Prison - Marquette	32,816,700	1,422,000		1,596,520	69,463	35,904,683
Michigan Reformatory - Ionia		415,000		523,332		938,332
Mound Correctional Facility - Detroit	24,155,900	2,400,000		311,217	96,826	26,963,943
Muskegon Correctional Facility - Muskegon	23,013,000	435,000		412,050	123,668	23,983,718
Newberry Correctional Facility - Newberry	27,480,900			17,184	139,206	27,637,290
Oaks Correctional Facility - Eastlake	30,479,800	(30,000)		836,986	72,325	31,359,110
Ojibway Correctional Facility - Marenisco	21,977,000	221,000		50,197	146,558	22,394,755
Parnall Correctional Facility - Jackson	22,108,300	(700,000)		661,970	128,730	22,199,000
Pine River Correctional Facility - St. Louis	17,669,300	(370,000)		753	88,564	17,388,617
Pugsley Correctional Facility - Kingsley	17,195,600	1,192,500		298,337	140,770	18,827,207
Riverside Correctional Facility - Ionia	43,971,800	8,304,000		1,059,774	227,937	53,563,511
Ryan Correctional Facility - Detroit	25,480,200	2,200,000		369,097	97,119	28,146,416
Saginaw Correctional Facility - Freeland	30,437,400	(700,000)		1,480	137,707	29,876,587
Robert Scott Correctional Facility - Plymouth	26,653,000	1,510,000		798,548	108,142	29,069,691
Southern Michigan Correctional Facility - Jackson	33,367,700			221,171	134,086	33,722,957
St. Louis Correctional Facility - St. Louis	47,872,300	(600,000)		558,368	224,207	48,054,874
Standish Maximum Correctional Facility - Standish	33,491,100	1,355,000		908,987	101,191	35,856,277
Thumb Correctional Facility - Lapeer	29,130,000	(100,000)		582,426	192,675	29,805,101
Western Wayne Correctional Facility - Plymouth		6,100,000		925,092	762	7,025,854
Jackson Area Support and Services	14,301,800	189,100		909,503		15,400,403
Special Alternative Incarceration Program - Cassidy Lake	10,324,700			130,168	100,210	10,555,078
Subtotal for Facility Operations	\$ 1,069,903,800	\$ 108,061,600	\$ 0	\$ 17,558,994	\$ 6,130,083	\$ 1,201,654,476
Budgetary adjustment	\$	\$	\$ 134,384	\$	\$	\$ 134,384
Total	\$ 1,688,886,300	\$ 0	\$ 134,384	\$ 34,118,127	\$ 38,634,755	\$ 1,761,773,566

Disposition of Authorizations

Expenditures and Transfers	Encumbrances	Restricted		Balances Lapsed	Total
		Revenues - Not Authorized			
\$ 45,751,452	\$ 146,556	\$	\$ 364,751	\$ 46,262,760	
50,317,718	2,838,083		200,863	53,356,664	
152,144,183	1,041,448	4,025,673	98,903	157,310,207	
42,871,338	968,008	138,938	49,737	44,028,021	
35,918,109	306,496		46,593	36,271,198	
61,587,081	2,167		8,969	61,598,217	
108,366,819	221,788		171,322	108,759,929	
38,434,910	58,522	50,965	40,814	38,585,211	
13,653,141			159,359	13,812,500	
<u>\$ 549,044,751</u>	<u>\$ 5,583,068</u>	<u>\$ 4,215,575</u>	<u>\$ 1,141,312</u>	<u>\$ 559,984,706</u>	
\$ 30,155,742	\$ 455	\$	\$ 176	\$ 30,156,373	
34,561,416	71,568		1,111	34,634,095	
41,663,464	7,815		280	41,671,559	
40,998,747	189,098		13,575	41,201,420	
43,600,395	232,103		12,173	43,844,672	
43,399,531	285,561		4,990	43,690,082	
22,398,423	71,220		30,722	22,500,365	
35,868,309	97,743		67,418	36,033,470	
61,745,355	26,880		75,314	61,847,550	
22,942,724	10,201		7,692	22,960,616	
42,991,335	140,251		9,379	43,140,965	
67,988,269	73,984		9,657	68,071,910	
27,058,895	7,949		5,917	27,072,761	
50,904,226	33,265		433	50,937,924	
58,878,680	217,662		24,423	59,120,766	
25,929,181	159,661		7,704	26,096,546	
35,028,409	844,892		31,382	35,904,683	
542,855	387,715		7,762	938,332	
26,711,686	239,443		12,814	26,963,943	
23,595,455	344,157		44,106	23,983,718	
27,631,453	4,606		1,231	27,637,290	
30,652,951	703,698		2,461	31,359,110	
22,361,431	31,764		1,560	22,394,755	
21,665,151	374,294		159,555	22,199,000	
17,387,245			1,372	17,388,617	
18,793,357	29,788		4,062	18,827,207	
53,008,492	468,348		86,672	53,563,511	
28,144,850			1,566	28,146,416	
29,872,974			3,613	29,876,587	
28,255,751	805,978		7,961	29,069,691	
33,558,850	145,654		18,452	33,722,957	
47,543,390	508,984		2,500	48,054,874	
35,285,442	555,927		14,908	35,856,277	
29,689,829	106,126		9,146	29,805,101	
6,471,330	541,682		12,842	7,025,854	
14,977,130	309,819		113,453	15,400,403	
10,501,136	22,176		31,765	10,555,078	
<u>\$ 1,192,763,861</u>	<u>\$ 8,050,470</u>	<u>\$ 0</u>	<u>\$ 840,146</u>	<u>\$ 1,201,654,477</u>	
<u>\$ 134,384</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 134,384</u>	
<u>\$ 1,741,942,995</u>	<u>\$ 13,633,538</u>	<u>\$ 4,215,575</u>	<u>\$ 1,981,458</u>	<u>\$ 1,761,773,566</u>	

DEPARTMENT OF CORRECTIONS
 Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
 Fiscal Year Ended September 30, 2004

Appropriation Unit	Sources of Authorizations					Total
	General Purpose Appropriations	Budgetary Transfers In (Out)	Budgetary Adjustment	Balances Carried Forward	Restricted Financing Sources	
Central Administration						
Executive	\$ 50,896,600	\$ (3,495,000)	\$	\$ 166,310	\$ 44,515	\$ 47,612,425
Administration and Programs	33,964,200	985,000		3,450,082	18,638,069	57,037,351
Field Operations	136,440,800	(500,000)		8,798,957	12,685,782	157,425,539
Special Alternative Incarceration Program	10,201,900			293,183	88,656	10,583,739
Office of Community Corrections	28,053,700			1,538,929	15,884,248	45,476,877
Consent Decrees	103,638,500	(41,030,000)		1,008,616		63,617,116
Office of Health Care	63,245,200	(5,000,000)		17,747		58,262,947
Clinical Operations	105,907,500	(2,438,200)		713,359	186,263	104,368,922
Correctional Facilities - Administration	31,397,616	(2,111,900)		7,488,145	3,207,756	39,981,617
Budgetary Savings	(14,888,200)	14,888,200				0
Information Technology	12,379,800			96,978		12,476,778
Subtotal for Central Administration	\$ 561,237,616	\$ (38,701,900)	\$ 0	\$ 23,572,305	\$ 50,735,289	\$ 596,843,311
Facility Operations						
Alger Maximum Correctional Facility - Munising	\$ 27,864,900	\$		\$ 82,123	\$ 53,051	\$ 28,000,074
Baraga Maximum Correctional Facility - Baraga	31,296,200			38,772	137,247	31,472,219
Bellamy Creek Correctional Facility - Ionia	33,945,000	1,900,000		85,007	142,870	36,072,877
Earnest C. Brooks Correctional Facility - Muskegon	38,284,000			264,383	185,509	38,733,892
Carson City Correctional Facility - Carson City	41,220,700			530,094	231,652	41,982,447
Chippewa Correctional Facility - Kincheloe	38,841,081			1,513,716	183,322	40,538,119
Cooper Street Correctional Facility - Jackson	21,949,200	(1,600,000)		194,664	201,783	20,745,647
G. Robert Cotton Correctional Facility - Jackson	33,254,300	(400,000)		487,675	146,118	33,488,093
Florence Crane Women's Facility - Coldwater	31,165,100	(1,850,000)		1,098,184	214,983	30,628,268
Deerfield Correctional Facility - Ionia	16,175,800	(950,000)		554,109	112,489	15,892,398
Charles E. Egeler Correctional Facility - Jackson	31,585,600	26,421,900		102,690	923,321	59,033,510
Richard A. Handlon Correctional Facility - Ionia	21,003,800	500,000		41,693	107,925	21,653,419
Gus Harrison Correctional Facility - Adrian	38,529,953	1,875,000		175,342	242,365	40,822,660
Huron Valley Men's Facility - Ypsilanti	21,040,800	5,075,000		826,811	29,400	26,972,011
Ionia Maximum Correctional Facility - Ionia	26,710,700	(375,000)		353,548	25,374	26,714,621
Jackson Maximum Correctional Facility - Jackson				79,607		79,607
Kinross Correctional Facility - Kincheloe	44,900,600	370,000		82,118	269,005	45,621,723
Lakeland Correctional Facility - Coldwater	22,863,500	(100,000)		587,595	110,249	23,461,344
Macomb Correctional Facility - New Haven	27,458,500	(2,700,000)		194,556	130,375	25,083,431
Marquette Branch Prison - Marquette	32,508,300	1,160,000		1,650,853	59,305	35,378,459
Michigan Reformatory - Ionia		3,800,000		876,093		4,676,093
Mound Correctional Facility - Detroit	25,043,300			7,337	87,680	25,138,317
Muskegon Correctional Facility - Muskegon	22,336,500	(295,000)		554,755	110,054	22,706,308
Newberry Correctional Facility - Newberry	25,827,200	(75,000)		325,366	125,100	26,202,665
Oaks Correctional Facility - Eastlake	29,493,100			778,337	55,262	30,326,699
Ojibway Correctional Facility - Marenisco	21,653,300	(700,000)		445	135,167	21,088,912
Parnall Correctional Facility - Jackson	21,634,200	(1,700,000)		709,247	115,107	20,758,554
Pine River Correctional Facility - St. Louis	16,955,000	(780,000)		3,066	78,123	16,256,189
Pugsley Correctional Facility - Kingsley	16,352,200	(80,000)		124,139	134,836	16,531,175
Riverside Correctional Facility - Ionia	25,890,481	9,000,000		890,937	87,005	35,868,423
Ryan Correctional Facility - Detroit	25,358,100	(50,000)		430,819	85,890	25,824,808
Saginaw Correctional Facility - Freeland	28,415,800	(150,000)		365	112,515	28,378,681
Robert Scott Correctional Facility - Plymouth	31,938,900	(880,000)		868,699	176,454	32,104,053
Southern Michigan Correctional Facility - Jackson	29,589,600	1,000,000		645,587	120,286	31,355,472
St. Louis Correctional Facility - St. Louis	44,554,666			545,786	199,679	45,300,130
Standish Maximum Correctional Facility - Standish	31,203,200	385,000		1,074,396	90,150	32,752,747
State Prison of Southern Michigan - Jackson		840,000		15,842		855,842
Thumb Correctional Facility - Lapeer	28,358,100	(600,000)		566,930	229,910	28,554,940
Western Wayne Correctional Facility - Plymouth	21,701,900	(630,000)		1,210,925	73,875	22,356,700
Jackson Area Support and Services	13,830,100	290,000		1,304,381	1,967,936	17,392,417
Subtotal for Facility Operations	\$ 1,040,733,681	\$ 38,701,900	\$ 0	\$ 19,876,992	\$ 7,491,371	\$ 1,106,803,943
Intrafund Expenditure Reimbursements	\$	\$	\$ 0	\$	\$ (1,967,936)	\$ (1,967,936)
Payroll Adjustment	\$	\$	\$ 0	\$	\$ 134,384	\$ 134,384
Total	\$ 1,601,971,297	\$ 0	\$ 0	\$ 43,449,297	\$ 56,393,108	\$ 1,701,813,702

Disposition of Authorizations

Expenditures and Transfers	Encumbrances	Restricted		Total
		Revenues - Not Authorized	Balances Lapsed	
\$ 45,556,681	\$ 107,624	\$	\$ 1,948,120	\$ 47,612,425
51,641,874	3,316,468		2,079,009	57,037,351
144,258,657	2,119,648	6,259,828	4,787,406	157,425,539
10,128,630	130,168		324,941	10,583,739
40,843,271	1,316,037	2,392,726	924,843	45,476,877
60,850,260	458,598		2,308,259	63,617,116
56,019,804	39,217		2,203,926	58,262,947
98,286,859	466,857		5,615,206	104,368,922
36,665,155	82,130		3,234,332	39,981,617
				0
12,472,011			4,767	12,476,778
<u>\$ 556,723,201</u>	<u>\$ 8,036,747</u>	<u>\$ 8,652,554</u>	<u>\$ 23,430,809</u>	<u>\$ 596,843,311</u>
\$ 27,453,922	\$ 18,995	\$	\$ 527,156	\$ 28,000,074
31,424,521	46,274		1,424	31,472,219
36,053,990	13,558		5,329	36,072,877
38,436,130	254,399		43,364	38,733,892
40,644,110	413,017		925,319	41,982,447
38,997,219	908,853		632,048	40,538,119
20,170,388	77,430		497,829	20,745,647
31,960,852	311,240		1,216,000	33,488,093
29,079,221	710,329		838,717	30,628,268
14,925,765	462,750		503,882	15,892,398
57,472,516	645,254		915,739	59,033,510
21,466,001	14,505		172,913	21,653,419
39,687,405	153,837		981,418	40,822,660
23,903,994	1,636,525		1,431,492	26,972,011
25,986,752	10,596		717,273	26,714,621
			79,607	79,607
45,419,021	137,092		65,609	45,621,723
22,524,801	918,727		17,816	23,461,344
24,258,846	115,203		709,382	25,083,431
33,099,438	1,596,520		682,500	35,378,459
3,915,448	523,332		237,313	4,676,093
24,823,890	311,217		3,210	25,138,317
21,988,573	412,050		305,685	22,706,308
25,536,974	17,184		648,507	26,202,665
27,817,443	836,986		1,672,271	30,326,699
20,760,350	50,197		278,365	21,088,912
19,748,532	661,970		348,053	20,758,554
15,969,528	753		285,908	16,256,189
16,006,992	298,337		225,847	16,531,175
34,303,521	597,024		967,878	35,868,423
25,440,220	369,097		15,491	25,824,808
27,779,215	1,480		597,986	28,378,681
30,524,822	798,548		780,682	32,104,053
30,188,394	221,171		945,908	31,355,472
43,965,941	558,368		775,822	45,300,130
31,588,357	908,987		255,403	32,752,747
808,284			47,559	855,842
27,512,185	582,426		460,329	28,554,940
20,242,837	925,092		1,188,771	22,356,700
14,839,599	909,503		1,643,315	17,392,417
<u>\$ 1,066,725,999</u>	<u>\$ 17,428,826</u>	<u>\$ 0</u>	<u>\$ 22,649,119</u>	<u>\$ 1,106,803,943</u>
<u>\$ (1,967,936)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (1,967,936)</u>
<u>\$ 12,682,451</u>	<u>\$</u>	<u>\$</u>	<u>\$ (12,548,068)</u>	<u>\$ 134,384</u>
<u>\$ 1,634,163,715</u>	<u>\$ 25,465,573</u>	<u>\$ 8,652,554</u>	<u>\$ 33,531,860</u>	<u>\$ 1,701,813,702</u>

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2003 through September 30, 2005

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2004	2005	
<u>U.S. Department of Agriculture</u>					
Pass-Through Programs:					
Michigan Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553	330008008	\$ 193,804	\$ 147,936	\$ 341,740
National School Lunch Program	10.555	330008008	347,163	292,546	639,709
Total Child Nutrition Cluster			<u>\$ 540,967</u>	<u>\$ 440,482</u>	<u>\$ 981,449</u>
Total U.S. Department of Agriculture			<u>\$ 540,967</u>	<u>\$ 440,482</u>	<u>\$ 981,449</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Offender Reentry Program	16.202		\$ 381,589	\$ 272,569	\$ 654,158
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586		17,105,094		17,105,094
State Criminal Alien Assistance Program	16.606		1,059,552	884,639	1,944,191
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735			14,144	14,144
Total Direct Programs			<u>\$ 18,546,235</u>	<u>\$ 1,171,352</u>	<u>\$ 19,717,587</u>
Pass-Through Programs:					
Michigan Department of Community Health					
Byrne Formula Grant Program	16.579	72114-1-03-B	\$ 252,913	\$	\$ 252,913
Byrne Formula Grant Program	16.579	72114-2-04-B		306,891	306,891
Total Byrne Formula Grant Program			<u>\$ 252,913</u>	<u>\$ 306,891</u>	<u>\$ 559,804</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-8-03	\$ 1,073,981	\$	\$ 1,073,981
Residential Substance Abuse Treatment for State Prisoners	16.593	90003-3-03	205,618		205,618
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-9-04		300,000	300,000
Total Residential Substance Abuse Treatment for State Prisoners			<u>\$ 1,279,599</u>	<u>\$ 300,000</u>	<u>\$ 1,579,599</u>
Total Pass-Through Programs			<u>\$ 1,532,512</u>	<u>\$ 606,891</u>	<u>\$ 2,139,403</u>
Total U.S. Department of Justice			<u>\$ 20,078,747</u>	<u>\$ 1,778,243</u>	<u>\$ 21,856,990</u>
<u>Institute of Museum and Library Services</u>					
Pass-Through Program:					
Library of Michigan					
State Library Program	45.310	207-03	\$ 44,674	\$	\$ 44,674
Total Institute of Museum and Library Services			<u>\$ 44,674</u>	<u>\$ 0</u>	<u>\$ 44,674</u>
<u>U.S. Department of Education</u>					
Direct Program:					
Grants to States for Incarcerated Youth Offenders	84.331		\$ 757,586	\$ 605,535	\$ 1,363,121
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Adult Education - State Grant Program	84.002	031120/4500023	\$ 36,000	\$	\$ 36,000
Adult Education - State Grant Program	84.002	041120/4500023	14,000		14,000
Adult Education - State Grant Program	84.002	031190/410114	112,540		112,540
Adult Education - State Grant Program	84.002	041190/410114	356,375		356,375
Adult Education - State Grant Program	84.002	041120/5500024		18,788	18,788
Adult Education - State Grant Program	84.002	051120/5500024		24,716	24,716
Adult Education - State Grant Program	84.002	041190/510115		27,116	27,116
Adult Education - State Grant Program	84.002	051190/510115		340,625	340,625
Total Adult Education - State Grant Program			<u>\$ 518,915</u>	<u>\$ 411,245</u>	<u>\$ 930,160</u>
Vocational Education - Basic Grants to States	84.048	043320/40101	\$ 171,500	\$	\$ 171,500
Vocational Education - Basic Grants to States	84.048	053320/50101		170,311	170,311
Total Vocational Education - Basic Grants to States			<u>\$ 171,500</u>	<u>\$ 170,311</u>	<u>\$ 341,811</u>
Total Pass-Through Programs - Michigan Department of Labor and Economic Growth			<u>\$ 690,415</u>	<u>\$ 581,556</u>	<u>\$ 1,271,971</u>

This schedule continued on next page.

DEPARTMENT OF CORRECTIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2003 through September 30, 2005
Continued

Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Directly Expended for the Fiscal Year Ended September 30,		Total Expended for the Two-Year Period
			2004	2005	
Michigan Department of Education					
Title I Program for Neglected and Delinquent Children	84.013	031660/0304	\$ 54,227	\$	\$ 54,227
Title I Program for Neglected and Delinquent Children	84.013	041660/0304	97,359		97,359
Title I Program for Neglected and Delinquent Children	84.013	041660/0405		125,683	125,683
Title I Program for Neglected and Delinquent Children	84.013	051660/0405		30,845	30,845
Total Title I Program for Neglected and Delinquent Children			\$ 151,586	\$ 156,528	\$ 308,114
Special Education - Grants to States					
Special Education - Grants to States	84.027	040440/0304	\$ 57,047	\$	\$ 57,047
Special Education - Grants to States	84.027	040490/CB	1,419		1,419
Special Education - Grants to States	84.027	040490/EOSD	5,840		5,840
Special Education - Grants to States	84.027	040490/TS	20,886		20,886
Special Education - Grants to States	84.027	050450/0405		57,047	57,047
Special Education - Grants to States	84.027	050490/EOSD		2,100	2,100
Special Education - Grants to States	84.027	050490/TS		7,268	7,268
Total Special Education - Grants to States			\$ 85,192	\$ 66,415	\$ 151,607
State Grants for Innovative Programs					
State Grants for Innovative Programs	84.298	040250/0405	\$	\$ 163	\$ 163
State Grants for Innovative Programs	84.298	050250/0405		189	189
Total State Grants for Innovative Programs			\$ 0	\$ 352	\$ 352
Improving Teacher Quality State Grants					
Improving Teacher Quality State Grants	84.367	040520/0405	\$	\$ 3,745	\$ 3,745
Improving Teacher Quality State Grants	84.367	050520/0405		3,187	3,187
Total Improving Teacher Quality State Grants			\$ 0	\$ 6,932	\$ 6,932
Total Pass-Through Programs - Michigan Department of Education			\$ 236,778	\$ 230,227	\$ 467,005
Total U.S. Department of Education			\$ 1,684,779	\$ 1,417,318	\$ 3,102,097
U.S. Department of Homeland Security					
Pass-Through Program:					
Michigan Department of State Police					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	000-UL4AK	\$	\$ 35,256	\$ 35,256
Total U.S. Department of Homeland Security			\$ 0	\$ 35,256	\$ 35,256
Total Expenditures of Federal Awards			\$ 22,349,167	\$ 3,671,299	\$ 26,020,466

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

DOC received federal revenues of \$416,167 and \$450,795 for fiscal years 2004-05 and 2003-04, respectively, for housing federal prisoners and for providing services to the U.S. Department of Health and Human Services. Because these federal revenues were received by DOC through a vendor relationship with the federal government, they are not considered to be federal awards and, accordingly, the expenditure of these revenues is not reported on this schedule. In addition, DOC expended \$35,256 of federal awards received as a subrecipient through the Michigan Department of State Police (CFDA 97.036). Under guidance received from the Office of Financial Management, Department of Management and Budget, amounts expended were recorded by the Michigan Department of State Police. Consequently, DOC did not report this federal revenue on its schedule of General Fund revenues or the expenditures on its schedule of sources and disposition of General Fund authorization. As a result, the amounts reported as expended on this schedule do not agree with the amounts reported as federal revenue in the schedule of General Fund revenues.

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

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Ms. Caruso:

We have audited the financial schedules of the Department of Corrections for the fiscal years ended September 30, 2005 and September 30, 2004, as identified in the table of contents, and have issued our report thereon dated March 10, 2006. 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.

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 an opinion 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 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a reportable condition, which is described in Finding 1.

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

March 10, 2006



STATE OF MICHIGAN
OFFICE OF THE 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

Ms. Patricia L. Caruso, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Ms. Caruso:

Compliance

We have audited the compliance of the Department of Corrections with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2005. 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 Corrections complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each major federal program for the two-year period ended September 30, 2005. 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. We noted no matters involving the internal control over compliance 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

March 10, 2006

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 or other matters 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?	None reported
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>
10.553 and 10.555	Child Nutrition Cluster
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
16.606	State Criminal Alien Assistance Program
84.002	Adult Education - State Grant Program
84.331	Grants to States for Incarcerated Youth Offenders

Dollar threshold used to distinguish between type A and type B programs: \$780,614

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (470601)

1. Federal Program Cost Recovery

The Department of Corrections (DOC) did not charge its federal grants for up to \$535,700 of allowable direct and indirect costs related to federal programs. In addition, DOC did not document the portion of employees' time that was spent working on certain federal grants. As a result, DOC used State General Fund dollars rather than federal dollars to fund the cost of these employees' time spent working on federal grants. Although the amount of direct and indirect costs that

* See glossary at end of report for definition.

could have been charged is not determinable, additional federal dollars were available because DOC lapsed a total of \$535,700 of federal awards during fiscal years 2003-04 and 2004-05.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribe Governments*, establishes principles and standards for determining allowable costs that can be charged against federal awards and allow State agencies to recover both direct and indirect costs. Also, Section 18.1460 of the *Michigan Compiled Laws* states that the departments shall charge the applicable indirect costs to federal programs and shall use the revenue to offset State expenditures for support services related to the indirect costs. Further, Section 18.1461 of the *Michigan Compiled Laws* requires federal grants to finance the cost of Single Audits* of departments.

DOC did not have an indirect cost rate that would allow it to charge indirect costs to federal grants. In the past, DOC informed us that it had not established an indirect cost rate to apply against federal grants because direct program costs were sufficient to fully utilize all available federal program funds. However, Section 18.1461 of the *Michigan Compiled Laws* does not have an exception to allow direct costs to be charged instead of indirect costs.

DOC also had not charged direct costs, including the cost of DOC's Single Audit and other salary costs, to federal programs. Salary costs that DOC may have been able to charge to federal grants included teacher salaries for the Adult Education - State Grant Program (CFDA 84.002), principal salaries for the Grants to States for Incarcerated Youth Offenders Program (CFDA 84.331), and salaries for central administration for these programs and the Byrne Formula Grant Program (CFDA 16.579). However, DOC was not able to charge these additional salaries to these programs because DOC did not prepare supporting timekeeping records for these employees. Supporting timekeeping records are required in order to document any salaries charged to federal grants.

* See glossary at end of report for definition.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DOC CHARGE ITS FEDERAL GRANTS FOR ALL ALLOWABLE DIRECT AND INDIRECT COSTS RELATED TO FEDERAL PROGRAMS.

We also recommend that DOC document the portion of employees' time that is spent working on federal grants.

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

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (470602)

2. Child Nutrition Cluster, CFDA 10.553 and 10.555

U.S. Department of Agriculture	Child Nutrition Cluster: CFDA 10.553: School Breakfast Program CFDA 10.555: National School Lunch Program
Award Number: 330008008 330008008	Award Period: 07/01/2003 - 06/30/2004 07/01/2004 - 06/30/2005
Pass-Through Agency: Michigan Department of Education	Questioned Costs: \$13,768

DOC did not ensure that meal reimbursement claims for the School Breakfast Program and the National School Lunch Program were limited to the number of meals served to eligible prisoners. As a result, DOC collected \$13,768 of reimbursements for ineligible prisoners.

Title 7, Part 210, section 2 of the *Code of Federal Regulations* limits eligibility* to prisoners under the age of 21.

* See glossary at end of report for definition.

DOC informed us that the facilities participating in the programs are responsible for identifying eligible prisoners and totaling the number of breakfasts and lunches served to them each month. One facility misinterpreted the regulations to mean that any prisoner age 21 and under was eligible rather than prisoners under the age of 21. This resulted in ineligible 21-year-old prisoners being counted as eligible for this facility for all of fiscal year 2003-04 and part of fiscal year 2004-05. DOC identified this problem in fiscal year 2004-05 but only refunded the excess collections for fiscal year 2004-05.

RECOMMENDATION

We recommend that DOC ensure that meal reimbursement claims for the School Breakfast Program and the National School Lunch Program are limited to the number of meals served to eligible prisoners.

FINDING (470603)

3. **State Criminal Alien Assistance Program (SCAAP), CFDA 16.606**

U.S. Department of Justice	CFDA 16.606: State Criminal Alien Assistance Program
Award Number: None	Award Period: None
	Questioned Costs: \$0

DOC did not include fringe benefits and overtime as part of the correctional officers' salaries in the application for SCAAP. Also, DOC did not maintain documentation to support the amount of correctional officers' salaries reported on the SCAAP application. We estimate that DOC would have obtained additional federal awards of \$.6 million and \$.5 million for fiscal years 2003-04 and 2004-05, respectively, if it had included the fringe benefits and overtime of correctional officers on the SCAAP application. Also, because DOC did not maintain documentation of the amount of salaries reported on the SCAAP application, it risked a reduction in federal awards of \$62,000 and \$28,000 for fiscal years 2003-04 and 2004-05, respectively.

SCAAP provides funding to states and localities that incurred salary costs for correctional officers for incarcerating undocumented criminal aliens who meet certain criteria. The grant award is based on the total number of prisoner days at correctional facilities, lists of criminal aliens in correctional facilities, the number of correctional officers, and the salaries of correctional officers. The program

guidelines provide that employee fringe benefits and overtime may be included in the correctional officers' salaries if it is required by union agreements. DOC's correctional officers' fringe benefits and overtime are paid in accordance with union agreements.

DOC's SCAAP applications for fiscal years 2003-04 and 2004-05 reported correctional officers' salaries of \$430.8 million and \$433.2 million, respectively. However, these amounts did not include an estimated \$250.4 million and \$271.6 million of fringe benefits and overtime. Based on the applications, DOC received federal awards of \$1.0 million and \$0.9 million for fiscal years 2003-04 and 2004-05, respectively. DOC cannot amend the 2003-04 and 2004-05 grant applications to obtain additional grant awards. However, if DOC had included fringe benefits and overtime, it could have received \$1.6 million and \$1.4 million for fiscal years 2003-04 and 2004-05, respectively.

Also, DOC did not maintain documentation to support the reported amounts of correctional officers' salaries. During our audit fieldwork, DOC performed an inquiry from the personnel system of correctional officers' salaries that indicated that the correctional officers' salaries were \$25.3 million and \$13.9 million less than the reported amounts for fiscal years 2003-04 and 2004-05, respectively. By not maintaining documentation, DOC risked a reduction of \$62,000 and \$28,000 for fiscal years 2003-04 and 2004-05, respectively, in its grant award.

RECOMMENDATIONS

We recommend that DOC include fringe benefits and overtime as part of the correctional officers' salaries in the application for SCAAP.

We also recommend that DOC maintain documentation to support the amount of correctional officers' salaries reported on the SCAAP application.

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

OTHER SCHEDULES

DEPARTMENT OF CORRECTIONS
Summary Schedule of Prior Audit Findings
As of September 30, 2005

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 470401

Finding Title: Expenditures and Federal Revenue Reporting

Finding: The Department of Corrections (DOC) did not comply with State accounting policies regarding the recording of expenditures and federal revenue for funds passed through from other State departments.

Comments: DOC complied by properly recording expenditures and federal revenue for funds passed through the Department of Community Health starting with fiscal year 2003-04.

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 470402

Finding Title: Procurement Card* Controls

Finding: DOC's internal control did not ensure that procurement card users complied with the Department of Management and Budget policies and procedures.

Comments: DOC took steps to comply as of June 15, 2004 by instructing administrative officers to document the corrective action taken to address instances of noncompliance.

* See glossary at end of report for definition.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 470404
Finding Title: Grants to States for Incarcerated Youth Offenders, *CFDA* 84.331

See Finding 470407 with the prior audit findings related to federal awards.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 470403
Finding Title: Federal Program Cost Recovery

Finding: DOC incurred various direct and indirect costs related to the Byrne Formula Grant and Grants to States for Incarcerated Youth Offenders Programs that were not charged to the federal programs.

Comments: DOC took steps to ensure that the grants were fully utilized using allowable direct charges but was not completely successful. DOC will further comply by taking steps to determine and change allowable indirect charges to federal programs.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 470405
Finding Title: Byrne Formula Grant Program, *CFDA* 16.579

Finding: DOC's internal control did not ensure that DOC obtained sufficient documentation to support its compliance with federal program requirements for the Byrne Formula Grant Program.

Comments: DOC took steps to comply as of June 15, 2004. DOC amended the contract to provide for billing and reimbursement based on a per diem amount for each day that programming was available to each offender during the month. The vendor is required to document the names of the offenders and the offenders' admit and release dates. DOC also amended the contract to more clearly define the responsibilities of each party regarding participants' eligibility and programming needs. In addition, DOC has taken steps to establish a system of review over the vendor's case files and program activity reports to provide for an aggregated review of the vendor's compliance with the federal program requirements.

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 470406

Finding Title: Federal Payroll Costs

Finding: DOC's internal control did not ensure that payroll costs charged to two federal programs were properly documented in accordance with federal requirements.

Comments: Regarding the Residential Substance Abuse Treatment for State Prisoners (RSAT) grant, DOC took steps as of June 15, 2004 to ensure that applicable certifications were completed as required. Regarding the Grants to States for Incarcerated Youth Offenders Program, no salaries are covered by the grant at this time. If salaries are funded through this grant in the future, DOC will ensure that a weekly time sheet is prepared to record the actual time spent on the grant.

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 470407

Finding Title: Grants to States for Incarcerated Youth Offenders, *CFDA* 84.331

Finding: DOC paid for services and materials that were not adequately documented or were not allowable costs, including payments made for prisoners who were not eligible, for the Grants to States for Incarcerated Youth Offenders Program.

Comments: DOC complied as of June 15, 2004. DOC revised the contract and budget with the community college to address space rental, travel costs, and course materials. The four double billings have been corrected and a process has been implemented to ensure that double billings do not occur in the future. In addition, DOC developed a revised enrollment and billing solution with the U.S. Department of Education and the community college. Regarding equipment costs, DOC has taken steps to ensure proper recording in the accounting records.

Audit Period: October 1, 2001 through September 30, 2003

Finding Number: 470408

Finding Title: Residential Substance Abuse Treatment for State Prisoners (RSAT), *CFDA* 16.593

Finding: DOC had not obtained adequate documentation to support costs and verify amounts incurred for the RSAT Program. Also, DOC had not always complied with RSAT federal program eligibility requirements.

Comments: DOC took steps to comply as of June 15, 2004. A new billing process has been implemented that will make it easier to verify mathematical calculations. In addition, DOC has changed the screening and enrollment criteria. Inmates who have been accepted into the RSAT Program, but arrive at the treatment facility with less than six months remaining to their potential release date, will not be enrolled.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 470409
Finding Title: Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants, *CFDA* 16.586

Finding: DOC had not established a comprehensive subrecipient* monitoring process to ensure that the VOI-TIS Incentive Grants Program's federal awards provided to its subrecipient were expended in accordance with federal laws and regulations and contract or grant agreement provisions.

Comments: DOC has requested and received copies of all payment documents from the Department of Management and Budget that were greater than \$5,000. All documents were reviewed for propriety. No discrepancies were noted. The projects at issue were completed in fiscal year 2002-03; therefore, this situation will not reoccur.

Audit Period: October 1, 2001 through September 30, 2003
Finding Number: 470410
Finding Title: Child Nutrition Cluster

Finding: DOC's internal control did not ensure that federal funds expended for the School Breakfast Program and the National School Lunch Program were recorded separately in the Michigan Administrative Information Network* (MAIN).

Comments: Federal funds expended for the School Breakfast Program and the National School Lunch Program have been recorded separately in MAIN since October 1, 2003.

* See glossary at end of report for definition.

DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of June 7, 2006

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 470601

Finding Title: Federal Program Cost Recovery

Management Views: The Department of Corrections (DOC) agrees. The lapsing of federal funds was largely due to program start-up or program expansion issues.

Corrective Action: Regarding the lapsing of \$159,000 of Byrne Formula Grant funds, DOC took corrective action by pursuing and obtaining additional alternative federal funding in the subsequent year to recover the lapsed funds.

Regarding the lapsing of \$349,000 of Grants to States for Incarcerated Youth Offenders Program and Adult Education - State Grant Program funds, DOC took corrective action by hiring two student interns to assist with administering the programs. The salaries of the interns have been charged to the grants effective October 1, 2005. Appropriate timekeeping records have been established to document the expenditures. The Prisoner Education Program is also planning to hire a consultant to assist with the monitoring of the Grants to States for Incarcerated Youth Offenders Program.

In addition, DOC has taken steps to determine and charge indirect costs to federal grants.

Anticipated Completion Date: August 31, 2006

Responsible Individuals: Tom Combs, Julie DeRose, Mike Draschil

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 470602

Finding Title: Child Nutrition Cluster, *CFDA* 10.553 and 10.555

Management Views: DOC agrees.

Corrective Action: DOC complied by establishing a process to ensure that only eligible prisoners are included in meal reimbursement claims. Computer-generated reports listing eligible prisoners are now provided to individuals who check off prisoners as they exit breakfast or lunch lines.

Anticipated Completion Date: March 16, 2006

Responsible Individual: Gatha McClellan

Finding Number: 470603

Finding Title: State Criminal Alien Assistance Program (SCAAP), *CFDA* 16.606

Management Views: DOC agrees. DOC was not aware that fringe benefits and overtime of correctional officers were allowable in the calculation as federal grants generally disallow these costs.

Corrective Action: DOC complied by contacting the U.S. Department of Justice to obtain clarification for the next grant year and was informed that fringe benefits cannot be

included in the next grant application. DOC has taken steps to ensure that overtime of correctional officers is included in future SCAAP applications. DOC will also maintain documentation to support the expenditure calculations reported on SCAAP applications.

Anticipated Completion Date: March 31, 2006

Responsible Individual: Steve DeBor

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DOC	Department of Corrections.
eligibility	Qualified in accordance with program requirements.
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 changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.

material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
OMB	U.S. Office of Management and Budget.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
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 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) initiate, record, process, 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. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.
RSAT	Residential Substance Abuse Treatment for State Prisoners.
SCAAP	State Criminal Alien Assistance Program.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements 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 and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

VOI-TIS

Violent Offender Incarceration and Truth in Sentencing.

