



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

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
 111-0100-07

Department of Attorney General

October 1, 2004 through September 30, 2006

Released:
 June 2007

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 Attorney General's financial schedules.

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Internal Control Over Financial Reporting

We identified a reportable condition related to internal control over financial reporting (Finding 1). We do not consider this reportable condition to be a material weakness.

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**Noncompliance and 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*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 2 programs as major programs and issued 2 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 did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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Systems of Accounting and Internal Control:

We determined that the Department 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 Title</u>	<u>Compliance Opinion</u>
93.563	Child Support Enforcement	Unqualified
93.775	State Medicaid Fraud Control Units	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.
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 15, 2007

The Honorable Mike Cox
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Cox:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Attorney General for the period October 1, 2004 through September 30, 2006.

This report contains our report summary, our independent auditor's report on the financial schedules, and the Department of Attorney General financial schedules and schedule of expenditures of federal awards. 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 the Department's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our finding and recommendation are contained in Section II of the schedule of findings and questioned costs. The agency preliminary response is 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

The Honorable Mike Cox
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Cox:

We have audited the accompanying financial schedules of the Department of Attorney General for the fiscal years ended September 30, 2006 and September 30, 2005, 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 other financing sources and the sources and disposition of authorizations for the Department of Attorney General'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 other financing sources and the sources and disposition of authorizations of the Department of Attorney General for the fiscal years ended September 30, 2006 and September 30, 2005 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007 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*, 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 Department's financial schedules taken as a whole.

AUDITOR GENERAL

April 24, 2007

DEPARTMENT OF ATTORNEY GENERAL
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	2006	2005
REVENUES		
From federal agencies	\$ 3,433,019	\$ 3,357,785
From services	9,912,242	8,143,908
From licenses and permits	2,023,868	1,713,007
Miscellaneous:		
Court fines, fees, and assessments	610,423	500,876
Court settlements	9,453,796	3,891,325
Other miscellaneous (Note 2)	2,258,359	3,408,092
Total revenues	\$ 27,691,707	\$ 21,014,993
OTHER FINANCING SOURCES		
Transfers from other funds		222,319
Total revenues and other financing sources	\$ 27,691,707	\$ 21,237,312

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

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

	<u>2006</u>	<u>2005</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 31,501,200	\$ 31,052,900
Budgetary adjustment		38,533
Balances carried forward	2,948,297	6,239,036
Restricted financing sources	30,156,978	24,685,541
Less: Intrafund expenditure reimbursements	<u>(10,416,708)</u>	<u>(10,212,949)</u>
 Total	 <u>\$ 54,189,767</u>	 <u>\$ 51,803,060</u>
 DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures	\$ 60,692,388	\$ 57,838,386
Less: Intrafund expenditure reimbursements	<u>(10,416,708)</u>	<u>(10,212,949)</u>
Net expenditures	<u>\$ 50,275,680</u>	<u>\$ 47,625,437</u>
Balances carried forward:		
Encumbrances	\$ 591,408	\$ 1,558,244
Restricted revenues - not authorized or used	3,175,194	1,390,053
Total balances carried forward	<u>\$ 3,766,602</u>	<u>\$ 2,948,297</u>
Balances lapsed	<u>\$ 147,485</u>	<u>\$ 1,229,326</u>
 Total	 <u>\$ 54,189,767</u>	 <u>\$ 51,803,060</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 Attorney General for the fiscal years ended September 30, 2006 and September 30, 2005. The financial transactions of the Department 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 Department's financial transactions recorded in the Utility Consumer Representation Fund, the Michigan Merit Award Trust Fund, and the Tobacco Settlement Trust Fund are not presented in these financial schedules, but are accounted for separately in those Funds' financial statements, which are also presented in the *SOMCAFR*.

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

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 accounting principles generally accepted in the United States of America. 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 other financing sources and the sources and disposition of authorizations for the Department of Attorney General's General Fund accounts. 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.

Note 2 Other Miscellaneous Revenue

Included in other miscellaneous revenue are prisoner reimbursement fees from the Department of Corrections totaling approximately \$1,920,000 and \$2,560,000 for fiscal years 2005-06 and 2004-05, 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 adjustment: An adjustment made in fiscal year 2004-05 by the Office of Financial Management, Department of Management and Budget, to provide authorization for the payroll and fringe benefit accrual recorded in fiscal year 2003-04.
- c. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used 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 or used.
- d. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of 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 or used.

- 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. In addition to the intrafund expenditure reimbursements that appear on the financial schedules, the Department used expenditure credits for services it provided to other State agencies totaling approximately \$5,940,000 and \$5,100,000 for fiscal years 2005-06 and 2004-05, respectively, that are not reflected on the Department's financial schedules. These costs appear as expenditures in the financial schedules of the other departments.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenues - not authorized or used: 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.
- h. 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.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF ATTORNEY GENERAL
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2004 through September 30, 2006

For the Fiscal Year Ended September 30, 2005

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed
<u>U.S. Department of Justice</u>					
Pass-Through Program:					
Michigan Department of Community Health Edward Byrne Memorial Formula Grant Program	16.579	71172-6-04-B	\$ 202,834	\$	\$ 202,834
Total U.S. Department of Justice			\$ 202,834	\$ 0	\$ 202,834
<u>U.S. Department of Health and Human Services</u>					
Direct Program:					
State Medicaid Fraud Control Units	93.775		\$ 3,311,838	\$	\$ 3,311,838
Pass-Through Program:					
Michigan Department of Human Services Child Support Enforcement (3)	93.563	04-IA-43	\$ 2,101,847	\$	\$ 2,101,847
Total U.S. Department of Health and Human Services			\$ 5,413,685	\$ 0	\$ 5,413,685
Total Expenditures of Federal Awards			<u>\$ 5,616,519</u>	<u>\$ 0</u>	<u>\$ 5,616,519</u>

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Attorney General on the modified accrual basis of accounting and in accordance with requirements of U.S. Office of Management and Budget (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) The Department of Human Services uses expenditure credits to reimburse the Department of Attorney General for its activities related to the Child Support Enforcement Program. The use of expenditure credits to finance Department of Attorney General services results in the federal revenue and program expenditures being reported in the State's accounting records at the Department of Human Services. As a result, the total expenditures of federal awards on this schedule will exceed the amount of federal revenue reported on the schedule of General Fund revenues and other financing sources.

For the Fiscal Year Ended September 30, 2006

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipient	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	\$	\$	\$	\$ 202,834
	\$ 0	\$ 0	\$ 0	\$ 202,834
	\$ 3,433,019	\$	\$ 3,433,019	\$ 6,744,857
ATG-06-001	\$ 2,141,873	\$	\$ 2,141,873	\$ 4,243,720
	\$ 5,574,892	\$ 0	\$ 5,574,892	\$ 10,988,577
	<u>\$ 5,574,892</u>	<u>\$ 0</u>	<u>\$ 5,574,892</u>	<u>\$ 11,191,411</u>

INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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AUDITOR GENERAL

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

The Honorable Mike Cox
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Cox:

We have audited the financial schedules of the Department of Attorney General for the fiscal years ended September 30, 2006 and September 30, 2005, as identified in the table of contents, and have issued our report thereon dated April 24, 2007. 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition identified in the previous paragraph is not a material weakness.

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*.

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

April 24, 2007



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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

The Honorable Mike Cox
Attorney General
G. Mennen Williams Building
Lansing, Michigan

Dear Mr. Cox:

Compliance

We have audited the compliance of the Department of Attorney General 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, 2006. 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 for each major program 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 Attorney General 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, 2006.

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

April 24, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weaknesses* identified? No

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

Noncompliance 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)? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.563	Child Support Enforcement
93.775	State Medicaid Fraud Control Units

Dollar threshold used to distinguish between type A and type B programs: \$335,742

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules

FINDING (1110701)

1. Internal Control Over Financial Reporting and Accounting

The Department of Attorney General did not ensure that reimbursements for services it provided to other State agencies were recorded in compliance with State accounting policy and with generally accepted accounting principles (GAAP).

As a result, for fiscal year 2005-06, the Department incorrectly reported revenue totaling \$1,220,866 that it should have reported as expenditure reimbursement transactions in the same amount. For fiscal year 2004-05, incorrect transactions resulted in overstated revenue and transfers totaling \$519,093 and \$222,319, respectively, and understated expenditure reimbursement transactions totaling \$741,412 on the Department's financial schedules.

The Department provides legal services to other State agencies. The other State agencies reimburse the Department for the cost of these services from the State's General Fund (intrafund transactions) and from other governmental funds (interfund transactions). The State of Michigan Financial Management Guide (Chapter 16) and GAAP provide guidance on the appropriate revenue and expenditure recognition for payment of services for intrafund and interfund transactions. For intrafund transactions, an agency receiving payment for services should record an expenditure reimbursement. For interfund transactions, an agency receiving payment for services should record revenue.

Our review of the Department's methods of recording these intrafund and interfund transactions in the State's accounting system disclosed:

- a. The Department recorded revenue totaling \$1,748,927 and \$1,466,634 for fiscal years 2005-06 and 2004-05, respectively, for services it provided to other General Fund departments and agencies. The Department should have recorded expenditure reimbursement transactions for these intrafund transactions.
- b. The Department recorded expenditure reimbursement transactions totaling \$528,061 and \$725,222 for fiscal years 2005-06 and 2004-05, respectively, for

services it provided that were paid from other State governmental funds. The Department should have recorded revenue for these interfund transactions.

- c. The Department recorded transfers from other funds totaling \$222,319 for fiscal year 2004-05 for services it provided that were paid from another State governmental fund. The Department should have recorded revenue for these interfund transactions.

We reported the issue regarding the Department's method of recording reimbursements for services provided to other State agencies in our prior Single Audit. The Department responded that it had strengthened internal control by enhancing its monitoring process, and we noted improvement during this audit period.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENSURE THAT REIMBURSEMENTS FOR SERVICES IT PROVIDES TO OTHER STATE AGENCIES ARE RECORDED IN COMPLIANCE WITH STATE ACCOUNTING POLICY AND WITH GAAP.

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

We did not report any findings related to federal awards.

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.

* See glossary at end of report for definition.

OTHER SCHEDULES

DEPARTMENT OF ATTORNEY GENERAL
Summary Schedule of Prior Audit Findings
As of April 24, 2007

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 110503
Finding Title: Biennial Internal Control Evaluation

Finding: The Department of Attorney General did not evaluate its internal control as required by Section 18.1485 of the *Michigan Compiled Laws* and the Department of Management and Budget (DMB) Administrative Guide procedure 1270.01.

Comments: The Department has complied with the recommendation. The Department conducted its biennial internal control evaluation for the subsequent review period.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 110501
Finding Title: Internal Control Over Financial Reporting and Accounting

Finding: The Department had not established a process to record reimbursements for services it provided to other State agencies that ensured compliance with State accounting policy and with generally accepted accounting principles (GAAP).

Comments: The Department has partially complied with the recommendation. The Department obtained clarification from the DMB Office of Financial Management and improved its guidance to other State

agencies regarding the correct transaction coding for reimbursement transactions. The Department also established a process to monitor proper accounting treatment. However, the process did not always ensure correct accounting treatment for reimbursements for services (Finding 1110701).

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 110502
Finding Title: Federal Funds Passed Between State Agencies

Finding: The Department had not established a process to ensure compliance with State accounting policy for recording transactions involving federal funds passed between State agencies.

Comments: The Department has partially complied with the recommendation. The Department obtained clarification from the DMB Office of Financial Management regarding the correct accounting treatment for federal funds passed between State agencies and established a process to monitor for correct accounting treatment. However, the Department continued to record transactions for one federal program as a vendor*.

Also, the Department's interagency agreement for fiscal year 2006-07 designates vendor status for the program.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2002 through September 30, 2004
Finding Number: 110504
Finding Title: Child Support Enforcement, *CFDA* 93.563

* See glossary at end of report for definition.

Finding: The Department did not maintain documentation to support some of the costs of its Child Support Enforcement Program.

Comments: The Department has complied with the recommendation. Also, the Department repaid the prior questioned costs by reducing its reimbursement from the Department of Human Services in the current audit period.

Audit Period: October 1, 2002 through September 30, 2004

Finding Number: 110505

Finding Title: State Medicaid Fraud Control Units, *CFDA 93.775*

Finding: The Department used a direct cost method to charge terminal leave payments to the State Medicaid Fraud Control Units Program without obtaining prior approval of the method from the cognizant federal agency.

Comments: The Department has complied with the recommendation. The Department no longer directly charges terminal leave payments to the Program. Also, the Department repaid the prior questioned costs by reducing its federal reimbursement in the current audit period.

DEPARTMENT OF ATTORNEY GENERAL

Corrective Action Plan

As of May 21, 2007

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 1110701
Finding Title: Internal Control Over Financial Reporting and Accounting

Management Views: The Department of Attorney General agrees with the recommendation.

Corrective Action: The Department will continue to monitor and provide guidance regarding the proper accounting treatment to its client agencies. The Department will notify them when the reimbursement for legal services is not consistent with the interagency agreement or with the State of Michigan Financial Management Guide (Chapter 16) and generally accepted accounting principles.

Anticipated Completion Date: April 24, 2007
Responsible Individual: James Selleck, Director of the Office of Fiscal Management

GLOSSARY

Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
DMB	Department of Management and Budget.
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.
GAAP	generally accepted accounting principles.
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 financial 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.
OMB	U.S. Office of Management and Budget.
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.

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 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.

vendor

A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program.

