



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:
551-0100-08

Michigan Department of State Police

October 1, 2005 through September 30, 2007

Released:
June 2008

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 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 Michigan Department of State Police's (MSP's) financial schedules.

~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We identified a significant deficiency in internal control over financial reporting (Finding 1). We do not consider this significant deficiency to be a material weakness.

~ ~ ~ ~ ~

**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*. However, we did identify other instances of noncompliance (Finding 1).

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 8 programs as major programs and issued 8 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 identified a significant deficiency in internal control over federal program compliance (Finding 2). We do not consider this significant deficiency to be a material weakness.

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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 (Finding 2).

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Systems of Accounting and Internal Control:

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

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We audited the following programs as major programs:

<u><i>CFDA Number</i></u>	<u><i>Program or Cluster Title</i></u>	<u><i>Compliance Opinion</i></u>
16.007/97.004 and 97.067	State Domestic Preparedness Equipment Support Program and Homeland Security Grant Program	Unqualified
16.011/97.008	Urban Areas Security Initiative	Unqualified
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	Unqualified
16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	Unqualified
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Unqualified
20.600, 20.601, 20.602, 20.604, 20.605, 20.610, and 20.612	Highway Safety Cluster	Unqualified
83.548/97.039	Hazard Mitigation Grant	Unqualified
97.042	Emergency Management Performance Grants	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 26, 2008

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of State Police (MSP) for the period October 1, 2005 through September 30, 2007.

This report contains our report summary, our independent auditor's report on the financial schedules, and the MSP 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 MSP'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

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

We have audited the accompanying financial schedules of the Michigan Department of State Police for the fiscal years ended September 30, 2007 and September 30, 2006, 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 Michigan Department of State Police'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 Michigan Department of State Police for the fiscal years ended September 30, 2007 and September 30, 2006 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2008 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 financial schedules taken as a whole.

AUDITOR GENERAL

June 11, 2008

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
REVENUES (Note 2)		
From taxes	\$ 2,034,922	\$ 2,050,517
From federal agencies (Note 5)	86,643,596	115,092,115
From local agencies	2,972,677	1,813,119
From services	47,719,346	41,438,157
From licenses and permits	8,046,538	12,734,556
Miscellaneous		
Secondary Road Patrol and Training Fund	13,334,319	14,163,828
Highway Safety Fund	13,932,185	14,196,926
Michigan Justice Training Fund	7,269,621	7,422,091
Automobile Theft Prevention Fund	6,616,355	6,670,407
Other	8,958,561	6,714,057
Total revenues	<u>\$ 197,528,120</u>	<u>\$ 222,295,773</u>
OTHER FINANCING SOURCES		
Transfers from other funds (Note 2)	<u>8,500,000</u>	<u>6,000,000</u>
Total revenues and other financing sources	<u><u>\$ 206,028,120</u></u>	<u><u>\$ 228,295,773</u></u>

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

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 243,187,000	\$ 235,346,900
Balances carried forward	25,096,606	29,675,816
Restricted financing sources (Note 5)	215,191,896	237,945,604
Less: Intrafund expenditure reimbursements	<u>(11,344,447)</u>	<u>(10,733,654)</u>
 Total	 <u>\$ 472,131,055</u>	 <u>\$ 492,234,666</u>
 DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out (Note 5)	\$ 457,997,145	\$ 480,813,277
Less: Intrafund expenditure reimbursements	<u>(11,344,447)</u>	<u>(10,733,654)</u>
Net expenditures and transfers out	<u>\$ 446,652,698</u>	<u>\$ 470,079,623</u>
Balances carried forward:		
Encumbrances	\$ 59,178	\$ 24,104
Restricted revenues - authorized		1,493,971
Restricted revenues - not authorized or used	<u>24,873,568</u>	<u>23,578,531</u>
Total balances carried forward	<u>\$ 24,932,746</u>	<u>\$ 25,096,606</u>
Balances lapsed	<u>\$ 1,576,453</u>	<u>\$ 79,202</u>
Overexpended (Note 4)	<u>\$ (1,030,842)</u>	<u>\$ (3,020,765)</u>
 Total	 <u>\$ 472,131,055</u>	 <u>\$ 492,234,666</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 Michigan Department of State Police (MSP) for the fiscal years ended September 30, 2007 and September 30, 2006. The financial transactions of MSP are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to MSP. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other post employment 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 MSP's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either MSP or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Revenues and Other Financing Sources

MSP receives tax revenue from a portion of the motor vehicle registration tax collected by the Department of State. Local revenue is received for school bus inspections and for leased MSP vehicles in relation to various multi-jurisdictional task forces with local units of government. Service revenue is received for fees related to background checks, fingerprints, and motor vehicle registration transaction fees. License and permit revenue is received for motor vehicle operators and chauffeurs licenses. Miscellaneous revenue is received for the Secondary Road Patrol and Training Fund, the Highway Safety Fund, and the Michigan Justice Training Fund from the Justice System Fund, which includes court fines, fees, and assessments collected by courts. The Justice System Fund revenue distribution is outlined in Section 600.181 of the *Michigan Compiled Laws*. In addition, MSP receives grant revenue from the Automobile Theft Prevention Fund as outlined in Section 500.6107(b) of the *Michigan Compiled Laws*. Approximately 99% of the revenue received by MSP is restricted revenue.

Act 345, P.A. 2006, mandated that \$8.5 million and \$6.0 million from the State Services Fee Fund be appropriated to the Traffic Law Enforcement and Safety Fund, a subfund of the General Fund, for fiscal years 2006-07 and 2005-06, 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. 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.

- c. 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.
- d. 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. Significant intrafund expenditure reimbursements were automobile theft funds (\$1.1 million and \$.9 million for fiscal years ended 2006-07 and 2005-06, respectively); training academy charges (\$1.4 million and \$1.6 million for fiscal years 2006-07 and 2005-06, respectively); training for MSP law enforcement officers (\$1.0 million and \$1.1 million for fiscal years 2006-07 and 2005-06, respectively); and casino gaming fees (\$3.5 million and \$3.0 million for fiscal years ended 2006-07 and 2005-06, respectively).
- e. 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.
- f. Restricted revenues - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. A significant carry-forward of this type was motor carrier excess fees.
- 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. Significant carry-forwards of this type were the Automobile Theft Prevention Fund (\$3.9 million and \$6.2 million for fiscal years

2006-07 and 2005-06, respectively) and the Michigan Justice Training Fund (\$7.1 million and \$6.7 million for fiscal years 2006-07 and 2005-06, respectively).

- 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. MSP lapsed \$1.6 million during fiscal year 2006-07, of which \$723,000 resulted from unobligated authorizations within fleet leasing.
- i. Overexpended: The total net overexpenditure of line-item authorizations.

Note 4 Budgetary Overexpenditures

MSP overexpenditures in fiscal year 2005-06, totaling \$3.0 million in MSP appropriations for workers' compensation, training academy charges, uniform services, and forensic science laboratory operations, were the result of cost reductions not sufficient to offset the decrease in the original enacted budget, increases in State employee economic costs, and lower than expected restricted revenue collections. MSP overexpenditures in fiscal year 2006-07 of \$1.0 million resulted when MSP expended funds that the Legislature appropriated to the General Fund from the Crime Victims Rights Fund; however, a statutory amendment was necessary to fund these expenditures. The statutory amendment was not passed in legislative committee and funding from the Crime Victims Rights Fund was not provided to the General Fund.

Note 5 Prior Period Correction of Errors

MSP understated expenditures, accounts payable, federal revenue, and receivables by approximately \$12.7 million in fiscal year 2004-05, which resulted in an overstatement of federal revenue, restricted financing sources, and expenditures of the same amount for fiscal year 2005-06.

These transactions were recorded as general purpose federal revenue and expenditures within MSP in the State's accounting system for fiscal year 2005-06. MSP requested and received approval from the Office of Financial Management, Office of the State Budget, Department of Management and Budget, to present MSP's fiscal year 2005-06 financial schedules differently from the State's accounting system to correctly reflect revenues, restricted financing sources, and grant expenditures on the schedule of General Fund

revenues and other financing sources, the schedule of sources and disposition of General Fund authorizations, and also the fiscal year 2005-06 schedule of expenditures of federal awards for the State Domestic Preparedness Equipment Support Program and Homeland Security Grant Program (*CFDA* 16.007/97.004 and 97.067), Urban Areas Security Initiative (*CFDA* 16.011), and Hazard Mitigation Grant (*CFDA* 83.548).

SUPPLEMENTAL
FINANCIAL SCHEDULE

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2005 through September 30, 2007

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2006		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Executive Office of the President</u>					
Direct Program:					
High Intensity Drug Trafficking Areas (HIDTA)	07 **		\$ 469,430	\$	\$ 469,430
Total Executive Office of the President			\$ 469,430	\$ 0	\$ 469,430
<u>U.S. Department of Agriculture</u>					
Direct Program:					
Criminal Investigation Section - Electronic Benefits Transfer (CIS - EBT) Team	10 **		\$ 15,000	\$	\$ 15,000
Total U.S. Department of Agriculture			\$ 15,000	\$ 0	\$ 15,000
<u>U.S. Department of Justice</u>					
Homeland Security Cluster:					
Direct Program:					
State Domestic Preparedness Equipment Support Program (Note 2)	16.007		\$ 3,307,561	\$ 18,578,422	\$ 21,885,983
Total Homeland Security Cluster			\$ 3,307,561	\$ 18,578,422	\$ 21,885,983
Direct Programs:					
Urban Areas Security Initiative (Note 2)	16.011		\$ 537,885	\$ 776,459	\$ 1,314,344
Missing Children's Assistance	16.543		69,605	60,000	129,605
National Criminal History Improvement Program (NCHIP)	16.554		643,987	63,122	707,109
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		704,294		704,294
Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	16.564		2,343,727		2,343,727
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		6,992		6,992
Violence Against Women Formula Grants	16.588		94,231		94,231
Bulletproof Vest Partnership Program	16.607		35,265		35,265
Community Prosecution and Project Safe Neighborhoods	16.609		256,143	19,941	276,084
Public Safety Partnership and Community Policing Grants	16.710		197,329		197,329
Enforcing Underage Drinking Laws Program	16.727		115,509	453,908	569,417
Forensic DNA Capacity Enhancement Program	16.741				0
Help Eliminate Marijuana Planting (HEMP) 2004	16.2004-66				0
Help Eliminate Marijuana Planting (HEMP) 2005	16.2005-73		125,437		125,437
Equitable Sharing of Federally Forfeited Property	16 **		100,452		100,452
Drug Enforcement Administration (DEA) Task Force Group Six	16 **		15,070		15,070
Detroit Violent Gang Task Force (DVGTF)	16 **				0
Detroit Major Crimes Task Force (DMCTF)	16 **				0
Detroit Fugitive Apprehension Team (DFAT)	16 **				0
Michigan Enforcement Team - DEA	16 **		37,842		37,842
Violent Crimes Task Force	16 **		21,920		21,920
Public Housing Safety Initiative	16 **		2,298		2,298
Alliance Fugitive Task Force	16 **		26,977		26,977
Wexford / Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)	16 **		4,381		4,381
Detroit Fugitive (U.S. Marshal)	16 **		6,483		6,483
Joint Terrorism Task Force	16 **		10,000		10,000
Bay Area Narcotics Enforcement Team (BAYANET) Gang Task Force	16 **		13,743		13,743
Domestic Cannabis Eradication/Suppression Program (DCE/SP)	16 **		264,069		264,069
ATF	16 **		11,238		11,238
Genesee County Safe Streets Task Force	16 **				0
Saginaw County Safe Streets Task Force	16 **				0
Southeast Michigan Crimes Against Children (SEMCAC)	16 **				0
Forensic Federal Forfeiture	16 **				0
Total Direct Programs			\$ 5,644,877	\$ 1,373,430	\$ 7,018,307

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2007			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 427,172	\$	\$ 427,172	\$ 896,602
\$ 427,172	\$ 0	\$ 427,172	\$ 896,602
\$ 24,394	\$	\$ 24,394	\$ 39,394
\$ 24,394	\$ 0	\$ 24,394	\$ 39,394
\$	\$ (9,564)	\$ (9,564)	\$ 21,876,419
\$ 0	\$ (9,564)	\$ (9,564)	\$ 21,876,419
\$	\$	\$ 0	\$ 1,314,344
155,866		155,866	285,471
456,718	95,759	552,477	1,259,586
479,289		479,289	1,183,583
1,491,595		1,491,595	3,835,322
17,000		17,000	23,992
		0	94,231
		0	35,265
9,637		9,637	285,721
773,758		773,758	971,087
57,627	224,251	281,878	851,295
72,048		72,048	72,048
1,725		1,725	1,725
		0	125,437
297,338		297,338	397,790
15,419		15,419	30,489
20,497		20,497	20,497
29,467		29,467	29,467
14,400		14,400	14,400
		0	37,842
		0	21,920
		0	2,298
		0	26,977
		0	4,381
		0	6,483
16,421		16,421	26,421
9,102		9,102	22,845
265,288		265,288	529,357
		0	11,238
5,605		5,605	5,605
6,643		6,643	6,643
8,537		8,537	8,537
107,300		107,300	107,300
\$ 4,311,280	\$ 320,010	\$ 4,631,290	\$ 11,649,597

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2005 through September 30, 2007
Continued

Federal Agency/Program or Cluster	CFDA* Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2006		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Pass-Through Programs:					
Edward Byrne Memorial Justice Assistance Grant Program:					
Alpena County	16.738	70874-7-06-B	\$ 108,343	\$	\$ 108,343
Alpena County	16.738	70874-8-07-B			0
City of Big Rapids	16.738	70894-6-06-B	61,126		61,126
City of Big Rapids	16.738	70894-7-07-B			0
Emmet County	16.738	70868-7-06-B	137,033		137,033
Emmet County	16.738	70868-8-07-B			0
City of Grand Rapids	16.738	70973-5-06-B	107,346		107,346
City of Grand Rapids	16.738	70973-6-07-B			0
City of Lansing	16.738	70901-6-06-B	124,076		124,076
City of Lansing	16.738	70901-7-07-B			0
Lapeer County	16.738	70898-6-06-B	51,348		51,348
Lapeer County	16.738	70898-7-07-B			0
Michigan Department of Community Health	16.738	(Note 3)	1,588,269	1,327,428	2,915,697
Missaukee County	16.738	70772-8-06-B	68,576		68,576
Missaukee County	16.738	70772-9-07-B			0
West Michigan Enforcement Team	16.738	70834-7-06-B	56,552		56,552
West Michigan Enforcement Team	16.738	70834-8-07-B			0
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>\$ 2,302,669</u>	<u>\$ 1,327,428</u>	<u>\$ 3,630,097</u>
Michigan Department of Human Services					
Juvenile Accountability Block Grants	16.523	N/A	\$	\$ 82,165	\$ 82,165
Violence Against Women Formula Grants	16.588	06-IA-27	\$ 142,075	\$ 0	\$ 142,075
Michigan Department of Community Health					
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	20061637	\$ 299,708	\$	\$ 299,708
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	20072237			0
Total Paul Coverdell Forensic Sciences Improvement Grant Program			<u>\$ 299,708</u>	<u>\$ 0</u>	<u>\$ 299,708</u>
Total Pass-Through Programs			<u>\$ 2,744,452</u>	<u>\$ 1,409,593</u>	<u>\$ 4,154,045</u>
Total U.S. Department of Justice			\$ 11,696,890	\$ 21,361,445	\$ 33,058,335
<u>U.S. Department of Transportation</u>					
Highway Safety Cluster:					
Direct Programs:					
State and Community Highway Safety	20.600		\$ 4,176,747	\$ 2,599,602	\$ 6,776,349
Alcohol Traffic Safety and Drunk Driving Prevention					
Incentive Grants	20.601		1,030,229	1,290,096	2,320,325
Occupant Protection	20.602		317,401	441,494	758,895
Safety Incentive Grants for Use of Seatbelts	20.604		794,166	231,714	1,025,880
Safety Incentives to Prevent Operation of Motor Vehicles					
by Intoxicated Persons	20.605		552,364	877,802	1,430,166
State Traffic Safety Information System Improvement Grants	20.610				0
Incentive Grant Program to Increase Motorcyclist Safety	20.612				0
Total Highway Safety Cluster			<u>\$ 6,870,907</u>	<u>\$ 5,440,708</u>	<u>\$ 12,311,615</u>
National Motor Carrier Safety	20.218		\$ 5,589,592	\$ 62,959	\$ 5,652,551
Border Enforcement Grants	20.233		376,746		376,746
Interagency Hazardous Materials Public Sector Training and					
Planning Grants	20.703		204,454	126,939	331,393
Transportation Planning, Research and Education	20.931				0
Total Direct Programs			<u>\$ 6,170,792</u>	<u>\$ 189,898</u>	<u>\$ 6,360,690</u>
Total U.S. Department of Transportation			\$ 13,041,699	\$ 5,630,606	\$ 18,672,305

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2007			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$	\$	\$	\$
		0	108,343
113,436		113,436	113,436
		0	61,126
64,253		64,253	64,253
		0	137,033
136,965		136,965	136,965
		0	107,346
110,712		110,712	110,712
		0	124,076
105,497		105,497	105,497
		0	51,348
46,320		46,320	46,320
1,595,489	1,262,532	2,858,021	5,773,718
		0	68,576
67,357		67,357	67,357
		0	56,552
58,860		58,860	58,860
\$ 2,298,889	\$ 1,262,532	\$ 3,561,421	\$ 7,191,518
\$	\$	\$	\$
		0	82,165
\$ 131,367	\$ 0	\$ 131,367	\$ 273,442
26,929		26,929	\$ 326,637
298,988		298,988	\$ 298,988
\$ 325,917	\$ 0	\$ 325,917	\$ 625,625
\$ 2,756,173	\$ 1,262,532	\$ 4,018,705	\$ 8,172,750
\$ 7,067,453	\$ 1,572,978	\$ 8,640,431	\$ 41,698,766
\$	\$	\$	\$
3,657,139	3,246,183	6,903,322	13,679,671
1,444,735	1,654,232	3,098,967	5,419,292
446,263	485,396	931,659	1,690,554
(851,518)	1,710,020	858,502	1,884,382
207,114	896,519	1,103,633	2,533,799
	500,000	500,000	500,000
	162,243	162,243	162,243
\$ 4,903,733	\$ 8,654,593	\$ 13,558,326	\$ 25,869,941
\$	\$	\$	\$
5,623,066	(5,413)	5,617,653	11,270,204
2,007,835		2,007,835	2,384,581
192,215	139,178	331,393	662,786
3,651		3,651	3,651
\$ 7,826,767	\$ 133,765	\$ 7,960,532	\$ 14,321,222
\$ 12,730,500	\$ 8,788,358	\$ 21,518,858	\$ 40,191,163

MICHIGAN DEPARTMENT OF STATE POLICE
Schedule of Expenditures of Federal Awards (Note 1)
For the Period October 1, 2005 through September 30, 2007
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2006		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Treasury					
Direct Programs:					
ATF/MSP Arson/Explosives Task Force	21**		\$	\$	\$ 0
Total U.S. Department of Treasury			\$ 0	\$ 0	\$ 0
U.S. Department of Energy					
Pass-Through Program:					
Iowa State University Forensic Soil Samples Grant	81**	PP 2005-40	\$ 34,513	\$	\$ 34,513
Total U.S. Department of Energy			\$ 34,513	\$ 0	\$ 34,513
Federal Emergency Management Agency (Note 2)					
Direct Programs:					
Flood Mitigation Assistance	83.536		\$	\$ 13,423	\$ 13,423
Public Assistance Grants	83.544		8,453	282,384	290,837
Hazard Mitigation Grant	83.548		425,183	4,070,153	4,495,336
Pre-Disaster Mitigation	83.557			244,258	244,258
Total Federal Emergency Management Agency			\$ 433,636	\$ 4,610,218	\$ 5,043,854
U.S. Department of Education					
Pass-Through Program:					
Michigan Department of Community Health Safe and Drug-Free Schools and Communities State Grants	84.186	20073416	\$	\$	\$ 0
Total U.S. Department of Education			\$ 0	\$ 0	\$ 0
U.S. Department of Homeland Security					
Homeland Security Cluster:					
Direct Programs:					
State Domestic Preparedness Equipment Support Program (Note 2)	97.004		\$ 6,060,066	\$ 22,212,423	\$ 28,272,489
Homeland Security Grant Program	97.067		3,652,750	470,096	17,122,846
Total Homeland Security Cluster			\$ 9,712,816	\$ 35,682,519	\$ 45,395,335
Direct Programs:					
Urban Areas Security Initiative (Note 2)	97.008		\$	\$ 6,417,138	\$ 6,417,138
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017		54,083	132,930	187,013
Hazardous Materials Assistance Program	97.021		4,334		4,334
Flood Mitigation Assistance (Note 2)	97.029			31,060	31,060
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		170,960	993,258	1,164,218
Hazard Mitigation Grant (Note 2)	97.039		48,028	283,695	331,723
Emergency Management Performance Grants	97.042		1,510,342	1,853,861	3,364,203
Homeland Security Information Technology and Evaluation Program	97.066		260,372	8,624	268,996
Rail and Transit Security Grant Program	97.075			1,185,557	1,185,557
Buffer Zone Protection Program (BZPP)	97.078		2,146		2,146
Repetitive Food Claims	97.092				0
Total Direct Programs			\$ 2,050,265	\$ 10,906,123	\$ 12,956,388
Total U.S. Department of Homeland Security			\$ 11,763,081	\$ 46,588,642	\$ 58,351,723
Total Expenditures of Federal Awards			\$ 37,454,249	\$ 78,190,911	\$ 115,645,160

* CFDA is defined as *Catalog of Federal Domestic Assistance*.

** CFDA number is not available. Number derived from federal agency number.

The accompanying notes are an integral part of this schedule.

For the Fiscal Year Ended September 30, 2007			Total Expended and Distributed for the Two-Year Period
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
\$ 74,852	\$	\$ 74,852	\$ 74,852
\$ 74,852	\$ 0	\$ 74,852	\$ 74,852
\$ 9,802	\$	\$ 9,802	\$ 44,315
\$ 9,802	\$ 0	\$ 9,802	\$ 44,315
\$	\$	\$	\$ 13,423
95,022	297,830	297,830	588,667
	2,809,002	2,904,024	7,399,360
	59,058	59,058	303,316
\$ 95,022	\$ 3,165,890	\$ 3,260,912	\$ 8,304,766
\$ 10,980	\$	\$ 10,980	\$ 10,980
\$ 10,980	\$ 0	\$ 10,980	\$ 10,980
\$ 1,135,023	\$ 1,745,815	\$ 2,880,838	\$ 31,153,327
6,976,940	30,591,821	37,568,761	54,691,607
\$ 8,111,963	\$ 32,337,636	\$ 40,449,599	\$ 85,844,934
\$	\$ 7,252,276	\$ 7,252,276	\$ 13,669,414
33,049	814,847	847,896	1,034,909
		0	4,334
	46,424	46,424	77,484
	70,015	70,015	1,234,233
820	397,086	397,906	729,629
3,245,081	1,869,945	5,115,026	8,479,229
		0	268,996
	379,376	379,376	1,564,933
2,799	550,000	552,799	554,945
	100,315	100,315	100,315
\$ 3,281,749	\$ 11,480,284	\$ 14,762,033	\$ 27,718,421
\$ 11,393,712	\$ 43,817,920	\$ 55,211,632	\$ 113,563,355
\$ 31,833,887	\$ 57,345,146	\$ 89,179,033	\$ 204,824,193

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule presents the federal grant activity for the Michigan Department of State Police (MSP) on the modified accrual basis of accounting and in accordance with the requirements of the 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. MSP receives some federal grants as a subgrantee of another State department and also distributes some federal grants to other State departments as a pass-through entity*. In these cases, the transfer of the financing is recorded in the MSP accounting records as an expenditure credit or as a revenue debit. As a result, the amounts reported as expended on this schedule differ from the amounts reported as federal revenue in the schedule of General Fund revenues and other financing sources.

Note 2 U.S. Department of Homeland Security Grants

Grants from the Federal Emergency Management Agency and certain grants from the U.S. Department of Justice are now awarded through the U.S. Department of Homeland Security. In accordance with OMB Circular A-133 Compliance Supplement, Part 4 - Agency Program Requirements, the awards are shown under the federal agency that originally awarded the funds.

Note 3 Edward Byrne Memorial Justice Assistance Grant Program

Pass-through identification numbers for the Michigan Department of Community Health's Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738) are:

Fiscal year 2005-06:

70768-9-06-B	70771-8-06-B	70844-7-06-B	70859-7-06-B
70888-7-06-B	70889-7-06-B	70909-6-06-B	70978-5-06-B
72082-4-06-B	72093-4-06-B	72197-3-06-B	72239-1-06-B
72252-1-06-B	72283-1-06-B		

* See glossary at end of report for definition.

Fiscal year 2006-07:

70768-1-07-B	70771-9-07-B	70844-8-07-B	70859-8-07-B
70888-8-07-B	70889-8-07-B	70909-7-07-B	70978-6-07-B
72082-5-07-B	72093-5-07-B	72197-3-07-B	72239-2-07-B
72306-1-07-B			

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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 Internal Control Over Financial Reporting and on Compliance and Other Matters

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

We have audited the financial schedules of the Michigan Department of State Police for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents, and have issued our report thereon dated June 11, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood

that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Finding 1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the third paragraph of this section 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*. However, we noted other noncompliance, as described in the accompanying schedule of findings and questioned costs as Finding 1.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, 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

June 11, 2008



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

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

Colonel Peter C. Munoz, Director
Michigan Department of State Police
714 South Harrison Road
East Lansing, Michigan

Dear Colonel Munoz:

Compliance

We have audited the compliance of the Michigan Department of State Police 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, 2007. 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 Michigan Department of State Police complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its major federal programs for the two-year period ended September 30, 2007. 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 Finding 2.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program, that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the preceding paragraph to be a material weakness.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, 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

June 11, 2008

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
Significant deficiencies* 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
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.007/97.004 and 97.067	State Domestic Preparedness Equipment Support Program and Homeland Security Grant Program
16.011/97.008	Urban Areas Security Initiative
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants

* See glossary at end of report for definition.

16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction
16.738	Edward Byrne Memorial Justice Assistance Grant Program
20.600, 20.601, 20.602, 20.604, 20.605, 20.610, and 20.612	Highway Safety Cluster
83.548/97.039	Hazard Mitigation Grant
97.042	Emergency Management Performance Grants

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (5510801)

1. Expenditures in Excess of Authorization

The Michigan Department of State Police's (MSP's) internal control did not prevent expenditures in excess of line-item appropriations. As a result, MSP was not in compliance with Section 18.1371 of the *Michigan Compiled Laws*.

In fiscal year 2005-06, MSP overexpended four line-item appropriations and exceeded its \$492.2 million total appropriations by \$3.0 million. In addition, in fiscal year 2006-07, MSP incurred expenditures of \$1.0 million in excess of its appropriation for three line-items; however, it did not exceed its total department appropriations of \$472.1 million.

Section 18.1371 of the *Michigan Compiled Laws* states that a State agency employee shall not make or authorize an expenditure or incur an obligation that results in the agency exceeding the gross appropriation level of an appropriation line item (account) made to that agency by the Legislature.

* See glossary at end of report for definition.

MSP indicated that it exceeded appropriations in fiscal year 2005-06 as a result of increases in fuel and vehicle costs, technology costs, and forensic science services. MSP did not sufficiently reduce expenditures to prevent the overexpended accounts. In fiscal year 2006-07, a statutory amendment was requested to allow for funding from the Crime Victims Rights Fund to fund MSP activities in the three General Fund accounts. However, this statutory amendment was not passed in legislative committee and funding was not provided, resulting in the overexpenditure of the three accounts.

RECOMMENDATION

We recommend that MSP implement internal control to prevent expenditures in excess of line-item appropriations.

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 (5510802)

2. OMB Circular A-133 Subrecipient* Audit Requirements

U.S. Department of Justice	CFDA 16.007: State Domestic Preparedness Equipment Support Program
Award Number: 2002-TE-CX-1070 2003-TE-TX-0202 2003-MU-T3-0018	Award Period: 10/01/2002 - 03/31/2005 04/01/2003 - 09/30/2005 05/01/2003 - 10/31/2006
	Questioned Costs: \$0

U.S. Department of Justice	CFDA 16.011: Urban Areas Security Initiative
Award Number: 2003-EU-T3-0011	Award Period: 07/01/2003 - 06/30/2006
	Questioned Costs: \$0

* See glossary at end of report for definition.

U.S. Department of Justice	<i>CFDA</i> 16.738: Edward Byrne Memorial Justice Assistance Grant Program
Award Number: 2004-DB-BX-0052 2006-DJ-BX-0029	Award Period: 10/01/2005 - 09/30/2006 10/01/2006 - 09/30/2007
Pass-Through Entity: Michigan Department of Community Health	Questioned Costs: \$0

U.S. Department of Transportation	<i>CFDA</i> 20.600: State and Community Highway Safety <i>CFDA</i> 20.601: Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants <i>CFDA</i> 20.602: Occupant Protection <i>CFDA</i> 20.604: Safety Incentive Grants for Use of Seatbelts <i>CFDA</i> 20.605: Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons
Award Number: Fund 402 Fund 410 Fund 405 Fund 157 Fund 163	Award Period: various
	Questioned Costs: \$0

Federal Emergency Management Agency	<i>CFDA</i> 83.548: Hazard Mitigation Grant
Award Number: MI-01-HM-1346 MI-02-HM-1413	Award Period: 10/17/2000 - 08/27/2010 05/06/2002 - 08/21/2007
	Questioned Costs: \$0

U.S. Department of Homeland Security	<i>CFDA</i> 97.004: State Domestic Preparedness Equipment Support Program
Award Number: 2004-GE-T4-0026	Award Period: 12/01/2003 - 08/31/2007
	Questioned Costs: \$0

U.S. Department of Homeland Security	<i>CFDA</i> 97.008: Urban Areas Security Initiative
Award Number: 2004-TU-T4-0026	Award Period: 02/01/2004 - 07/31/2007
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.067: Homeland Security Grant Program
Award Number: 2005-GE-T5-0014	Award Period: 10/01/2004 - 03/31/2008
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.039: Hazard Mitigation Grant
Award Number: MI-04-HM-1527	Award Period: 06/30/2004 - 12/31/2008
	Questioned Costs: \$0

U.S. Department of Homeland Security	CFDA 97.042: Emergency Management Performance Grants
Award Number: 2006-EM-E6-0036	Award Period: 10/01/2005 - 09/30/2007
	Questioned Costs: \$0

MSP's internal control did not ensure that its subrecipients complied with the audit requirements of OMB Circular A-133. Also, MSP's internal control did not ensure that it issued management decisions on subrecipients' audit findings within the time frame required by OMB Circular A-133. As a result, MSP cannot be assured that the subrecipients complied with audit requirements and were spending the federal funds in accordance with federal regulations and grant agreements.

OMB Circular A-133 requires the pass-through entity (e.g, MSP) to ensure that each subrecipient expending \$500,000 or more in federal awards during the subrecipient's fiscal year complies with the audit requirements of OMB Circular A-133 for that fiscal year. OMB Circular A-133 also requires the pass-through entity to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report. MSP distributed \$46.9 million to 708 subrecipients and \$67.9 million to 547 subrecipients for fiscal years 2004-05 and 2005-06, respectively, for the major programs audited.

MSP summarizes payments made to subrecipients to identify who should be submitting audit reports. MSP relies on the subrecipient to submit the audit reports. MSP may also search the Department of Treasury Web site or the Federal Clearinghouse Web site to determine if a Single Audit report was completed and

print a copy if available. Our review of the centralized subrecipient logs maintained by MSP disclosed:

	Fiscal Year 2004-05		Fiscal Year 2005-06	
	Number of Subrecipients	Payments to Subrecipients (in millions)	Number of Subrecipients	Payments to Subrecipients (in millions)
Audit reports not reviewed in six months	57	\$19.9	38	\$17.3
Audit report letter of notification not obtained	368	\$ 9.2	383	\$12.1
Total subrecipients and payments made to subrecipients	708	\$46.9	547	\$67.9

RECOMMENDATIONS

We recommend that MSP improve its internal control to ensure that its subrecipients comply with the audit requirements of OMB Circular A-133.

WE AGAIN RECOMMEND THAT MSP ISSUE MANAGEMENT DECISIONS ON SUBRECIPIENTS' AUDIT FINDINGS WITHIN THE TIME FRAME REQUIRED BY OMB CIRCULAR A-133.

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

OTHER SCHEDULES

MICHIGAN DEPARTMENT OF STATE POLICE
Summary Schedule of Prior Audit Findings
As of June 11, 2008

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550601

Finding Title: Federal Program Expenditures and Revenue

Finding: The Michigan Department of State Police (MSP) did not comply with generally accepted accounting principles by recording expenditures and federal revenue for six of its federal programs in the proper fiscal year. As a result, MSP understated expenditures, accounts payable, federal revenue, and receivables by approximately \$10.9 million and \$2.3 million in fiscal years 2004-05 and 2003-04, respectively. Our review disclosed a material internal control weakness and material noncompliance* with federal requirements.

Comments: MSP developed internal procedures for determining and recording year-end payables.

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550602

Finding Title: Cash Management - EMHSD

Finding: Emergency Management and Homeland Security Division's (EMHSD's) cash management procedures did not sufficiently minimize the time elapsing between the expenditure of funds and

* See glossary at end of report for definition.

the request for federal grant reimbursement. Based on the State Treasurer's common cash rates of return, we estimated that EMHSD could have earned additional interest income of approximately \$42,000 and \$25,000 in fiscal years 2004-05 and 2003-04, respectively, if it had requested reimbursement for expenditures on a monthly, instead of quarterly, basis.

Comments: EMHSD requests federal grant reimbursements after the expenditure of funds, on a monthly basis, or to the extent administratively feasible.

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550603

Finding Title: Indirect Costs

Finding: MSP did not request and obtain federal approval of its revised indirect cost rate. As a result, MSP did not recover all eligible indirect costs from the federal government.

Comments: MSP requested and received approval of a revised phased-in indirect cost rate.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550604

Finding Title: Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction, *CFDA* 16.564

Finding: MSP's internal control did not ensure that the Crime Laboratory Improvement - Combined DNA Backlog Reduction Program complied with federal laws and regulations regarding procurement and suspension and debarment. In addition, MSP did not always document proper approval of expenditure transactions.

Comments: MSP has instituted a procedure for reviewing the federal government's register regarding suspension and debarment. MSP developed a written procedure regarding approval of expenditure transactions.

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550606

Finding Title: Federal Program Expenditures and Revenue

See Finding 550601 with the prior audit findings related to the financial schedules.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2003 through September 30, 2005

Finding Number: 550605

Finding Title: Subrecipient Monitoring

Finding: MSP's internal control did not ensure that it obtained required subrecipient Single Audit reports. Also, MSP's internal control did not ensure that it issued management decisions on subrecipients' audit findings within the time frame required by OMB Circular A-133. Without proper internal control over subrecipient monitoring, MSP cannot be assured that the subrecipients used federal awards in accordance with federal regulations and contract or grant agreements.

Comments:

MSP developed internal procedures for obtaining subrecipients' audit reports, issuing management decisions, and ensuring that federal awards are spent in accordance with federal regulations and grant agreements. However, MSP has not fully implemented the procedures.

MICHIGAN DEPARTMENT OF STATE POLICE
Corrective Action Plan
As of June 6, 2008

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 5510801
Finding Title: Expenditures in Excess of Authorization

Management Views: The Michigan Department of State Police (MSP) agrees with this finding.

Corrective Action: MSP implemented a reduction in expenditures and additional budget monitoring. In the event that revenues are not sufficient, supplemental budget appropriations will be requested or additional expenditure reductions will be implemented to ensure that overall department expenditures are not in excess of appropriations.

Anticipated Completion Date: September 2008

Responsible Individual: Melanie Oudsema, Chief Accountant, Budget and Financial Services Division (BFSD)

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 5510802
Finding Title: OMB Circular A-133 Subrecipient Audit Requirements

Management Views: MSP agrees with this finding.

Corrective Action: MSP will improve its methodology and processes to obtain subrecipient audit reports with findings related to MSP grants and to issue management decisions

within the time frame identified by OMB Circular A-133.

Anticipated Completion Date: Fiscal Year 2008-09

Responsible Individual: Doug Spitzley, Accountant Manager, BFSD

GLOSSARY

Glossary of Acronyms and Terms

BFSD	Budget and Financial Services Division.
<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
control deficiency in internal control over federal program compliance	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DNA	deoxyribonucleic acid.
EMHSD	Emergency Management and Homeland Security Division.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to 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, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MSP	Michigan Department of State Police.
pass-through entity	A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.
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.

significant deficiency
in internal control over
federal program
compliance

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

significant deficiency
in internal control over
financial reporting

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

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

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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.

