



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:
 950-0150-09

State-Funded Judicial Operations

October 1, 2006 through September 30, 2008

Released:
 June 2009

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 State-funded judicial operations' financial schedules.

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Internal Control Over Financial Reporting

We identified significant deficiencies in internal control over financial reporting (Findings 1 and 2). We do not consider these significant deficiencies to be material weaknesses.

~ ~ ~ ~ ~

**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*.

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 5 programs as major programs and issued 5 unqualified opinions. The State-funded judicial operations expended a total of \$9.2 million in federal awards during the two-year period ended September 30, 2008. 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 significant deficiencies in internal control over federal program compliance (Finding 3). We consider Finding 3 to contain a material weakness.

~ ~ ~ ~ ~

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.

~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
16.554	National Criminal History Improvement Program	Unqualified
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Unqualified
20.601, 20.604, 20.605, and 20.610	Highway Safety Cluster	Unqualified
93.586	State Court Improvement Program	Unqualified
93.597	Grants to States for Access and Visitation Programs	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>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

June 18, 2009

The Honorable Marilyn Kelly
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Kelly:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 2006 through September 30, 2008.

This report contains our report summary, our independent auditor's report on the financial schedules, and the State-funded judicial operations' 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 State-funded judicial operations' summary schedule of prior audit findings, the corrective action plan, and a glossary of acronyms and terms.

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on the Financial Schedules

The Honorable Marilyn Kelly
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Kelly:

We have audited the accompanying financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents. These financial schedules are the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the State-funded judicial operations' 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 State-funded judicial operations or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 2008 and September 30, 2007 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2009 on our consideration of the State-funded judicial operations' internal control over financial reporting and on our tests of 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 State-funded judicial operations' 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

May 20, 2009

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	2008	2007
REVENUES		
Miscellaneous		
Court-generated revenues:		
Court of Appeals filing fees	\$ 1,653,310	\$ 1,816,067
Community dispute resolution fees	2,260,348	2,192,201
Court Equity Fund (Note 3.a.)	47,054,860	46,870,865
Other court-generated revenues (Note 3.b.)	25,505,566	26,986,219
Other	4,513,812	1,220,567
Total miscellaneous	\$ 80,987,896	\$ 79,085,919
From federal agencies	3,746,158	5,475,211
From services	5,256,482	4,273,060
From licenses and permits	3,301,714	3,386,943
Total revenues	\$ 93,292,250	\$ 92,221,133

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

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2008</u>	<u>2007</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 157,996,700	\$ 156,501,200
Balances carried forward	15,039,999	11,214,292
Restricted financing sources	<u>90,017,308</u>	<u>92,206,835</u>
 Total	 <u>\$ 263,054,007</u>	 <u>\$ 259,922,327</u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures	<u>\$ 247,401,193</u>	<u>\$ 244,620,557</u>
Balances carried forward:		
Encumbrances	\$ 135,246	\$ 169,925
Restricted revenues - authorized	329,554	252,820
Restricted revenues - not authorized or used	14,846,773	14,617,254
Total balances carried forward	<u>\$ 15,311,573</u>	<u>\$ 15,039,999</u>
Balances lapsed:		
Current year appropriations	\$ 321,000	\$ 13,018
Carry-forward of prior years' appropriations	20,241	248,753
Total balances lapsed	<u>\$ 341,241</u>	<u>\$ 261,771</u>
 Total	 <u>\$ 263,054,007</u>	 <u>\$ 259,922,327</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 State-funded judicial operations for the fiscal years ended September 30, 2008 and September 30, 2007. The financial transactions of the State-funded judicial operations 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 the State-funded judicial operations. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; and other postemployment benefits.

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 the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the State-funded judicial operations or the State's

General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. 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, restricted transfers, and restricted intrafund expenditure reimbursements used 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. 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.
- e. 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.

- f. 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 revenues from court fees that are deposited into the Court Fee Fund (\$1.89 million and \$1.19 million for fiscal years 2007-08 and 2006-07, respectively); juror compensation reimbursement fees that are deposited into the Juror Compensation Reimbursement Fund (\$2.79 million and \$3.92 million for fiscal years 2007-08 and 2006-07, respectively); court fees that are deposited into the Judicial Technology Improvement Fund (\$5.38 million and \$5.27 million for fiscal years 2007-08 and 2006-07, respectively); court assessments and costs directed by law to the Drug Treatment Court Fund (\$.65 million and \$1.18 million for fiscal years 2007-08 and 2006-07, respectively); and community dispute resolution fees (\$1.92 million and \$1.88 million for fiscal years 2007-08 and 2006-07, respectively). The restricted revenues - not authorized or used represent the unexpended balance of these revenues.

- g. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Court-Generated Revenues

- a. Court Equity Fund
The Court Equity Fund was established pursuant to Section 151b, Act 374, P.A. 1996. The Court Equity Fund receives revenues from the State Court Fund and the Court Fee Fund, and accumulates proceeds from the collection of certain court costs assessed by the district courts. The revenues collected in the Court Equity Fund (\$47.05 million and \$46.87 million for fiscal years 2007-08 and 2006-07, respectively) are distributed to the counties based on the counties' proportion of caseload and the number of circuit, district, and probate judges for each county.

- b. Other Court-Generated Revenues
Other court-generated revenues represent revenues received from certain court fees, costs, and assessments; driver's license clearance fees; and

jury demand fees. These revenues are accumulated in the following General Fund subfunds as follows:

- (1) State Court Fund: The State Court Fund was established pursuant to Section 151a., Act 189, P.A. 1993. The State Court Fund accumulates proceeds from the collection of revenues from certain court fees. The revenues collected, net of distributions to the Court Equity Fund (\$7.84 million and \$7.69 million for fiscal years 2007-08 and 2006-07, respectively), are designated for indigent civil legal assistance and the State Court Administrative Office for oversight, data collection, and court management assistance.
- (2) Court Fee Fund: The Court Fee Fund was established pursuant to Section 217, Act 234, P.A. 1992. The Court Fee Fund receives revenues from court fees collected in excess of amounts needed to fund the Judges' Retirement System. The revenues collected, net of distributions to the reserve for health benefits and to the Court Equity Fund (\$7.09 million and \$7.09 million for fiscal years 2007-08 and 2006-07, respectively), are designated for trial court operations.
- (3) Juror Compensation Reimbursement Fund: The Juror Compensation Reimbursement Fund was established pursuant to Section 151d, Act 740, P.A. 2002. The Juror Compensation Reimbursement Fund accumulates proceeds from the collection of driver's license clearance fees and jury demand fees. The revenues collected (\$2.42 million and \$4.83 million for fiscal years 2007-08 and 2006-07, respectively) are provided to the courts to fund the increase in the juror compensation rates that took effect October 1, 2003.
- (4) Judicial Technology Improvement Fund: The Judicial Technology Improvement Fund was established pursuant to Section 175, Act 78, P.A. 2003, effective October 1, 2003. The Judicial Technology Improvement Fund accumulates proceeds from the collection of revenues from certain court fees. The revenues collected (\$4.86 million and \$4.63 million for fiscal years 2007-08 and 2006-07, respectively) are used for the development and ongoing support of a Statewide judicial information system and to pursue technology innovations at local trial courts.

- (5) Justice System Fund: The Justice System Fund was established pursuant to Section 181, Act 97, P.A. 2003, effective October 1, 2003. The Justice System Fund accumulates proceeds from the collection of revenues from certain court costs and assessments. The revenues collected, net of distributions to a variety of funds, as identified in Section 600.181 of the *Michigan Compiled Laws* (\$.55 million and \$.57 million for fiscal years 2007-08 and 2006-07, respectively), are designated for the State Court Administrative Office for management assistance and audit of trial court collections.
- (6) Drug Treatment Court Fund: The Drug Treatment Court Fund was established pursuant to Section 185, Act 72, P.A. 2003, effective October 1, 2003. The Drug Treatment Court Fund accumulates proceeds from the collection of revenues from certain court costs and assessments. The revenues collected (\$1.69 million and \$1.69 million for fiscal years 2007-08 and 2006-07, respectively) are used for the administration of, and the awarding of grants for, drug treatment court programs throughout the State.

SUPPLEMENTAL
FINANCIAL SCHEDULE

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008

For the Fiscal Year Ended September 30, 2007

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of Justice</u>					
Direct Program:					
Drug Court Discretionary Grant Program	16.585		\$ 0	\$ 0	\$ 0
Pass-Through Programs:					
Michigan Department of State Police					
National Criminal History Improvement Program (NCHIP)	16.554	2006-RU-BX-K037	\$ 95,759	\$	\$ 95,759
National Criminal History Improvement Program (NCHIP)	16.554	2007-RU-BX-K026			
Total National Criminal History Improvement Program (NCHIP)			\$ 95,759	\$ 0	\$ 95,759
Michigan Department of Community Health					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	ODCP#72157-4-07-B	\$ 36,600	\$ 1,582,395	\$ 1,618,995
Edward Byrne Memorial Justice Assistance Grant Program	16.738	ODCP#72157-5-08-B			
Total Edward Byrne Memorial Justice Assistance Grant Program			\$ 36,600	\$ 1,582,395	\$ 1,618,995
Total Pass-Through Programs			\$ 132,359	\$ 1,582,395	\$ 1,714,754
Total U.S. Department of Justice			\$ 132,359	\$ 1,582,395	\$ 1,714,754
<u>U.S. Department of Transportation</u>					
Highway Safety Cluster					
Pass-Through Programs:					
Michigan Department of State Police					
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-04	\$ 54,772	\$	\$ 54,772
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-27	57,593		57,593
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-07-02	10,997		10,997
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-08-13			0
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-08-17			0
Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants			\$ 123,362	\$ 0	\$ 123,362
Safety Incentive Grants for Use of Seatbelts	20.604	TR-07-02	1,500,000		1,500,000
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	TR-07-02	156,750		156,750
State Traffic Safety Information System Improvement Grants	20.610	TR-07-02	500,000		500,000
Total Highway Safety Cluster			\$ 2,280,112	\$ 0	\$ 2,280,112
Total U.S. Department of Transportation			\$ 2,280,112	\$ 0	\$ 2,280,112
<u>U.S. Department of Health and Human Services</u>					
Direct Program:					
State Court Improvement Program	93.586		\$ 460,849	\$ 0	\$ 460,849
Pass-Through Programs:					
Michigan Department of Human Services					
Child Support Enforcement	93.563	SCAO-IA-0702	\$ 500,494	\$	\$ 500,494
Child Support Enforcement	93.563	SCAO-08-IA-02			0
Total Child Support Enforcement			\$ 500,494	\$ 0	\$ 500,494
Grants to States for Access and Visitation Programs	93.597	SCAO-IA-0701	\$ 220,686	\$	\$ 220,686
Grants to States for Access and Visitation Programs	93.597	SCAO-08-IA-01			0
Total Grants to States for Access and Visitation Programs			\$ 220,686	\$ 0	\$ 220,686

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2008

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 94,358	\$ 0	\$ 94,358	\$ 94,358
\$ 104,241	\$	\$ 104,241	\$ 200,000
71,757		71,757	71,757
<u>\$ 175,998</u>	<u>\$ 0</u>	<u>\$ 175,998</u>	<u>\$ 271,757</u>
\$ 8,774	\$ 1,290,185	\$ 1,298,959	\$ 1,618,995
			1,298,959
<u>\$ 8,774</u>	<u>\$ 1,290,185</u>	<u>\$ 1,298,959</u>	<u>\$ 2,917,954</u>
<u>\$ 184,772</u>	<u>\$ 1,290,185</u>	<u>\$ 1,474,957</u>	<u>\$ 3,189,711</u>
<u>\$ 279,130</u>	<u>\$ 1,290,185</u>	<u>\$ 1,569,315</u>	<u>\$ 3,284,069</u>
\$	\$	\$ 0	\$ 54,772
			0
			57,593
			0
			10,997
4,322	44,038	48,360	48,360
11,429		11,429	11,429
<u>\$ 15,751</u>	<u>\$ 44,038</u>	<u>\$ 59,789</u>	<u>\$ 183,151</u>
			1,500,000
			0
			156,750
			0
			500,000
<u>\$ 15,751</u>	<u>\$ 44,038</u>	<u>\$ 59,789</u>	<u>\$ 2,339,901</u>
<u>\$ 15,751</u>	<u>\$ 44,038</u>	<u>\$ 59,789</u>	<u>\$ 2,339,901</u>
<u>\$ 1,066,143</u>	<u>\$ 0</u>	<u>\$ 1,066,143</u>	<u>\$ 1,526,992</u>
\$ 500,690	\$	\$ 500,690	\$ 500,494
			500,690
<u>\$ 500,690</u>	<u>\$ 0</u>	<u>\$ 500,690</u>	<u>\$ 1,001,184</u>
\$ 267,025	\$	\$ 267,025	\$ 220,686
			267,025
<u>\$ 267,025</u>	<u>\$ 0</u>	<u>\$ 267,025</u>	<u>\$ 487,711</u>

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 through September 30, 2008

Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Foster Care-Title IV-E	93.658	SCAO-07-06	\$ 298,316	\$	\$ 298,316
Foster Care-Title IV-E	93.658	SCAO-08-IA-06			0
Total Foster Care-Title IV-E			\$ 298,316	\$ 0	\$ 298,316
Total Pass-Through Programs			\$ 1,019,496	\$ 0	\$ 1,019,496
Total U.S. Department of Health and Human Services			\$ 1,480,345	\$ 0	\$ 1,480,345
 Total Expenditures of Federal Awards			 \$ 3,892,816	 \$ 1,582,395	 \$ 5,475,211

For the Fiscal Year Ended September 30, 2007

(1) Basis of Presentation: This schedule presents the federal grant activity of the State-funded judicial operations on the modified accrual basis of accounting and in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audit 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*.

For the Fiscal Year Ended September 30, 2008

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 283,194	\$	\$ 0	\$ 298,316
\$ 283,194	\$ 0	\$ 283,194	\$ 283,194
\$ 1,050,909	\$ 0	\$ 1,050,909	\$ 2,070,405
\$ 2,117,052	\$ 0	\$ 2,117,052	\$ 3,597,397
<u>\$ 2,411,933</u>	<u>\$ 1,334,223</u>	<u>\$ 3,746,156</u>	<u>\$ 9,221,367</u>

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INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

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

The Honorable Marilyn Kelly
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Kelly:

We have audited the financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 2008 and September 30, 2007, as identified in the table of contents, and have issued our report thereon dated May 20, 2009. 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 State-funded judicial operations' 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 State-funded judicial operations' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State-funded judicial operations' 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in Findings 1 and 2 in the accompanying schedule of findings and questioned costs to be significant deficiencies 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 none of the significant deficiencies described in the third paragraph of this section is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State-funded judicial operations' financial schedules are free of material misstatement, we performed tests of 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*.

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

This report is intended solely for the information and use of management, others within the State-funded judicial operations, 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

May 20, 2009



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

The Honorable Marilyn Kelly
Chief Justice of the Michigan Supreme Court
Michigan Hall of Justice
Lansing, Michigan

Dear Chief Justice Kelly:

Compliance

We have audited the compliance of the State-funded judicial operations 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, 2008. The State-funded judicial operations' 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 State-funded judicial operations' management. Our responsibility is to express an opinion on the State-funded judicial operations' 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 preceding 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 State-funded judicial operations' 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 State-funded judicial operations' compliance with those requirements.

In our opinion, the State-funded judicial operations 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, 2008.

Internal Control Over Compliance

The management of the State-funded judicial operations 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 State-funded judicial operations' 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 State-funded judicial operations' 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 State-funded judicial operations' internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 3 to be significant deficiencies.

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. Of the significant deficiencies identified in the preceding paragraph, we consider Finding 3.a. to be a material weakness.

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

This report is intended solely for the information and use of management, others within the State-funded judicial operations, 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

May 20, 2009

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?	Yes
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>
16.554	National Criminal History Improvement Program
16.738	Edward Byrne Memorial Justice Assistance Grant Program
20.601, 20.604, 20.605, and 20.610	Highway Safety Cluster

* See glossary at end of report for definition.

93.586	State Court Improvement Program
93.597	Grants to States for Access and Visitation Programs

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee*? No

Section II: Findings Related to the Financial Schedules

FINDING (9500901)

1. Internal Control Components

The Judiciary needs to improve its internal control environment relative to anti-fraud programs, its risk assessment process, and its monitoring of internal control. This audit did not identify instances of fraud.

Fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties involving the use of deception to obtain an unjust or illegal advantage. An effective control environment includes appropriately designed anti-fraud programs and controls, which help reduce the risks of fraud. The Judiciary's control environment included some longstanding anti-fraud controls, such as separation of duties for selected activities. However, the Judiciary informed us that it did not have a comprehensive anti-fraud program.

Also, the Judiciary did not have an effective risk assessment process. An entity's risk assessment process is its identification, analysis, and management of risks relevant to a particular objective (e.g., preparing financial schedules and protecting cash receipts). The process would include a systematic identification of the Judiciary's risks, analyses of the possible magnitude and likelihood of the identified risks, and corresponding actions to mitigate the risks.

Further, the Judiciary did not have an effective internal control monitoring process. Monitoring of internal control helps management to assess the quality of its internal

* See glossary at end of report for definition.

control over time. Monitoring can be ongoing or through periodic assessments. Without monitoring, internal control is likely to weaken over time.

RECOMMENDATION

We recommend that the Judiciary improve its internal control environment relative to anti-fraud programs, its risk assessment process, and its monitoring of internal control.

FINDING (9500902)

2. Schedule of Expenditures of Federal Awards (SEFA)

The Judiciary's internal control over financial reporting did not ensure that its SEFA preparation process resulted in a reliable and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133 requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedules and to include the SEFA in the recipient's Single Audit* report. The SEFA reports the amounts that the Judiciary expended directly or distributed to subrecipients*. Also, the SEFA differentiates between federal funding received by the Judiciary directly from federal departments and from pass-through entities* (e.g., another State entity, such as the Michigan Department of State Police). Further, a SEFA, containing accurate *CFDA* numbers, serves as the primary basis for the auditor's major program determination.

The Judiciary's fiscal year 2006-07 SEFA did not report expenditures related to the Highway Safety Cluster under the appropriate *CFDA* numbers. Also, the Judiciary reported the Edward Byrne Memorial Justice Assistance Grant Program's subrecipient expenditures as directly expended rather than as distributed to subrecipients and did not use the appropriate *CFDA* number.

The Judiciary corrected the SEFA as a result of our audit.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over financial reporting to ensure that its SEFA preparation process results in a reliable and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

FINDING (9500903)

3. Highway Safety Cluster, CFDA 20.601, 20.604, 20.605, and 20.610

U.S. Department of Transportation	CFDA 20.601, 20.604, 20.605, and 20.610 Highway Safety Cluster
Award Number: AL-06-04 AL-06-27 AL-07-02 TR-07-02 AL-08-13 AL-08-17	Award Period: 10/01/2006 - 9/30/2007 10/01/2006 - 9/30/2007 10/01/2006 - 9/30/2007 10/01/2006 - 9/30/2007 10/01/2007 - 9/30/2008 10/01/2007 - 9/30/2009
Pass-Through Entity: Michigan Department of State Police	Known Questioned Costs: \$0

The Judiciary's internal control over the Highway Safety Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed and period of availability. Our review disclosed a material weakness in internal control regarding activities allowed or unallowed.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Highway Safety Cluster awards.

OMB Circular A-133 requires that the Judiciary maintain internal control over federal programs that provides reasonable assurance that it is managing federal awards in compliance with federal requirements that could have a material effect on its federal programs.

* See glossary at end of report for definition.

Federal expenditures for the Highway Safety Cluster totaled \$2.3 million for the two-year period ended September 30, 2008.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

The Judiciary did not initially make an independent determination that the cost of improving its data warehouse was an allowable activity under the federal requirements related to the Safety Incentive Grants for Use of Seatbelts Program. Instead, it relied on the language of its agreement with its awarding agency, the Michigan Department of State Police. The Highway Safety Cluster included the Safety Incentive Grants for Use of Seatbelts Program (CFDA 20.604). The Judiciary expended \$1.5 million of its Safety Incentive Grants for Use of Seatbelts on improving its data warehouse.

After our inquiry, the Judiciary obtained documentation which demonstrated that Safety Incentive Grants for Use of Seatbelts Program expenditures were for allowable activities.

b. Period of Availability

The Judiciary did not initially obtain authorization to incur pre-award costs of \$156,750. The period of availability section (Part 3-H) of the OMB *Circular A-133 Compliance Supplement* states that the Judiciary may charge to the award only costs resulting from obligations incurred during the funding period and any authorized pre-award costs.

After our inquiry, the Judiciary obtained authorization from its pass-through entity to incur pre-award costs.

RECOMMENDATION

We recommend that the Judiciary improve its internal control over the Highway Safety Cluster to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed and period of availability.

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

OTHER SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS
Summary Schedule of Prior Audit Findings
As of May 20, 2009

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

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

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2004 through September 30, 2006
Finding Number: 9500701
Finding Title: Edward Byrne Memorial Formula Grant Program, *CFDA* 16.579, and Edward Byrne Memorial Justice Assistance Grant Program, *CFDA* 16.738

Finding:

- a. The Judiciary did not ensure that its Byrne Program subrecipients obtained Single Audits by receiving either a copy of the audit report or a letter stating that the subrecipients' audit reports had no Byrne Program findings.
- b. The Judiciary did not have a practical methodology for determining the overall reasonableness of the costs incurred by its Byrne Program subrecipients.

Agency Comments: The Judiciary has corrected the deficiencies.

STATE-FUNDED JUDICIAL OPERATIONS

Corrective Action Plan

As of May 26, 2009

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 9500901
Finding Title: Internal Control Components

Management Views: Although the audit report is correct in that the Judiciary does not have a comprehensive anti-fraud program, or formal programs for risk assessment and monitoring of internal control, the Judiciary is not convinced that the auditors identified significant deficiencies that would warrant using operating funds intended for Judiciary core activities to fund such programs. No additional staffing or funding has been made available for the Judiciary to perform the functions suggested in the report. The audit report disclosed one material condition regarding the Judiciary's system of internal control and did not disclose fraudulent activities in the Judiciary's operations.

Planned Corrective Action: As a pilot, the Finance Department will review the risk assessment and internal control evaluation tools maintained by the Office of Internal Audit Services, Office of the State Budget, to assess risk and to evaluate the internal control over the Finance Department functions.

Anticipated Completion Date: September 30, 2010
Responsible Individual: E. Ronald Stadnika, Chief Financial Officer

Finding Number: 9500902
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The presentation issues contained in the report were corrected by the Finance Department prior to the end of the audit fieldwork and the SEFA is reported correctly in the audit report. Everything expended by the Judiciary was initially reported in the draft SEFA, although the final categorization needed to be adjusted and *CFDA* numbers needed to be changed. When the auditors brought this to the Judiciary's attention, the appropriate changes were made to the SEFA.

Planned Corrective Action: In the future, the Finance Department will take the necessary steps to have an additional review of the information presented in the SEFA prior to giving it to the auditors for their review.

Anticipated Completion Date: Implemented prior to the end of the audit.
Responsible Individual: E. Ronald Stadnika, Chief Financial Officer

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 9500903
Finding Title: Highway Safety Cluster, *CFDA* 20.601, 20.604, 20.605, and 20.610

Management Views: In the first instance (part a. Activities Allowed or Unallowed), the report did not disclose noncompliance with federal laws and regulations or questioned costs regarding allowable activities for the State and Community Highway Safety Cluster awards. As the audit report states, "After our inquiry, the Judiciary obtained documentation which demonstrated that

Safety Incentive Grants for Use of Seatbelts Program expenditures were for allowable activities."

As a subrecipient, the Judiciary applied for a grant from the Michigan Department of State Police and relied on its evaluation of the grant application and subsequent award that indicated the grant funds could be used to improve the Judicial Data Warehouse and was allowable under the terms of the federal grant. The Judiciary provided documentation to the auditors that demonstrated that the program expenditures were allowable activities under the terms of the federal grant.

In the second instance (part b. Period of Availability), the Judiciary became compliant with federal laws and regulations regarding period of availability for the State and Community Highway Safety Cluster awards when the Judiciary obtained after-the-fact authorization from its pass-through entity to incur pre-award costs.

Planned Corrective Action:

In the future, when the Judiciary is a subrecipient of federal grant awards, the Judiciary will not rely exclusively on the representations of the recipient of the grant funds, but it will also perform independent research to determine that what is proposed is an allowable activity under the conditions of the grant. The Judiciary will also take the steps necessary for the program managers to understand the terms of the grants. The Finance Department has developed a checklist for grants to ensure that the appropriate documentation is in the grant file.

Anticipated Completion Date:

Implemented prior to May 26, 2009

Responsible Individual:

E. Ronald Stadnika, Chief Financial Officer

GLOSSARY

Glossary of Acronyms and Terms

CFDA

Catalog of Federal Domestic Assistance.

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.

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 presented fairly in all material respects in conformity with the disclosed basis of accounting.

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.
OMB	U.S. Office of Management and Budget.
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.

SEFA	schedule of expenditures of federal awards.
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 <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

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

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

