



# 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:

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



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

*Financial Audit*  
*Including the Provisions of the Single Audit Act*  
*Department of State*

Report Number:  
 231-0100-11

*October 1, 2008 through September 30, 2010*

Released:  
 May 2011

*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 Department of State's financial schedules.

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**Internal Control Over Financial Reporting**

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we did identify a significant deficiency (Finding 1).

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**Noncompliance and Other Matters  
 Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, we did identify other noncompliance (Finding 2).

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**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 2 programs as major programs and issued 2 unqualified opinions. The Department of State expended a total of \$12.1 million in federal awards during the two-year period ended September 30, 2010. The federal programs audited as major programs are identified on the back of this summary.

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**Internal Control Over Major Programs**

We did not identify any deficiencies in internal control over federal program compliance that we consider to be material weaknesses. However, we did identify a significant deficiency (Finding 3).

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**Required Reporting of Noncompliance**

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

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**Internal Accounting and Administrative Control System:**

Section 18.1489 of the *Michigan Compiled Laws* requires the Auditor General to evaluate the implementation of Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* and report to the Legislature in the financial audit of each department. As a result of Executive Reorganization Order No. 2007-31 (Consolidating Internal Audit Functions), in which responsibility for most of the sections was moved to the Office of Internal Audit Services, Department of Management and Budget,

we have evaluated the implementation of only Section 18.1485 in this financial audit. Section 18.1485 requires each department director to establish an internal accounting and administrative control system, defines the elements of that system, defines the duties of the department director, and provides for certain reports. We determined that the Department of State was in substantial compliance with Section 18.1485 of the *Michigan Compiled Laws*.

The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the *Michigan Compiled Laws*) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
90.401	Help America Vote Act Requirements Payments	Unqualified
97.089	Driver's License Security Grant Program	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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

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Deputy Auditor General



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

May 11, 2011

The Honorable Ruth Johnson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Johnson:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of State for the period October 1, 2008 through September 30, 2010.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Department of State financial schedules and supplemental financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains the Department of State'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 plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

AUDITOR GENERAL



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INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL SCHEDULES



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

## Independent Auditor's Report on the Financial Schedules

The Honorable Ruth Johnson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Johnson:

We have audited the accompanying financial schedules of the Department of State for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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

As described in Note 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of State's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of State for the fiscal years ended

September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

As disclosed in Note 1.a., the information contained in the Department's schedule of revenues and other financing sources has been changed from prior years to reflect the revenues that were collected and used for the Department's own General Fund operations.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of revenue collections for other agencies are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

April 25, 2011

DEPARTMENT OF STATE  
Schedule of General Fund Revenues and Other Financing Sources  
For the Fiscal Years Ended September 30  
(In Thousands)

	<u>2010</u>	<u>2009</u>
REVENUES (Note 1)		
Taxes:		
Sales taxes	\$ 216,013	\$ 221,245
Use taxes	72,299	64,200
Other taxes - penalty and interest	10,038	10,232
Motor vehicle registration tax	797	797
Total taxes	<u>\$ 299,147</u>	<u>\$ 296,473</u>
From federal agencies	<u>\$ 7,136</u>	<u>\$ 2,818</u>
From services:		
Registration transaction fees	\$ 42,773	\$ 42,957
Commercial lookup fees	35,389	37,725
Title services fees	9,261	9,027
Registration transfer fees	7,523	7,455
Uniform commercial code lien filing and search fees	3,470	3,740
Other	6,293	6,216
Total from services	<u>\$ 104,708</u>	<u>\$ 107,120</u>
From licenses and permits:		
Motor vehicle operator and chauffeur licenses	\$ 33,862	\$ 33,817
Other licenses and permits	4,050	4,044
Auto repair facility and mechanic licenses	3,782	3,853
Motor vehicle title fees - plates	1,388	1,375
Total from licenses and permits	<u>\$ 43,082</u>	<u>\$ 43,089</u>
Miscellaneous:		
Court fines, fees, and assessments	\$ 7,832	\$ 7,841
Other miscellaneous	913	1,344
Total miscellaneous	<u>\$ 8,745</u>	<u>\$ 9,185</u>
Total revenues	<u>\$ 462,817</u>	<u>\$ 458,686</u>
OTHER FINANCING SOURCES (Note 1)		
Transfers from Michigan Transportation Fund	\$ 20,000	\$ 20,000
Transfers from Assigned Claims Facility and Plan Fund	100	77
Total other financing sources	<u>\$ 20,100</u>	<u>\$ 20,077</u>
Total revenues and other financing sources	<u>\$ 482,917</u>	<u>\$ 478,764</u>

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

DEPARTMENT OF STATE  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30  
(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>SOURCES OF AUTHORIZATIONS (Note 2)</b>		
General purpose appropriations	\$ 18,074	\$ 25,748
Balances carried forward	21,569	23,225
Restricted financing sources	<u>173,753</u>	<u>163,461</u>
 Total	 <u>\$ 213,396</u>	 <u>\$ 212,434</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 2)</b>		
Expenditures and transfers out	<u>\$ 188,154</u>	<u>\$ 186,857</u>
Balances carried forward:		
Encumbrances	\$ 51	\$ 1,738
Multi-year projects	11,093	7,905
Restricted revenues - authorized	174	136
Restricted revenues - not authorized or used	<u>11,475</u>	<u>11,790</u>
Total balances carried forward	<u>\$ 22,793</u>	<u>\$ 21,569</u>
Balances lapsed	<u>\$ 2,449</u>	<u>\$ 4,008</u>
 Total	 <u>\$ 213,396</u>	 <u>\$ 212,434</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 Department of State's General Fund financial transactions for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. In addition, the Department is responsible for collecting taxes, fees, and other revenue for various State departments, as presented in the supplemental financial schedule of revenue collections by agency.

For the fiscal years ended September 30, 2008 and September 30, 2007, the Department's schedule of revenues and other financing sources included revenues collected by the Department's Assigned Claims Facility and Plan Fund, a special revenue fund. Because this Fund is a special revenue fund and does not receive federal funding, it has been excluded from the scope of this audit.

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

#### b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available.

Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

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

Note 2 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. Significant sources of this type for fiscal year 2009-10 were from the Transportation Administration Collection Fund (\$100.3 million), driver fees (\$20.8 million), and the Michigan Transportation Fund (\$20.0 million). Significant sources of this type for fiscal year 2008-09 were from the Transportation Administration Collection Fund (\$102.3 million), the Michigan Transportation Fund (\$20.0 million), and driver fees (\$16.6 million).

- 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. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. Significant carry-forwards of this type for fiscal year 2009-10 were for the Business Application Modernization\* (\$9.8 million) and the Help America Vote Act (\$1.3 million). Significant carry-forwards of this type for fiscal year 2008-09 were for the Business Application Modernization (\$6.8 million) and the Help America Vote Act (\$1.2 million).
- 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. This line item also includes encumbrances that are financed with these restricted revenues.
- 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.

\* See glossary at end of report for definition.

However, those revenues that have been set aside to finance encumbrances and multi-year projects may be expended without additional legislative authorization for the purpose of the carry-forward. Significant carry-forwards of restricted revenues subject to annual legislative appropriation for fiscal year 2009-10 were for the Transportation Administration Collection Fund (\$1.3 million) and motorcycle safety fees (\$683,000). Significant carry-forwards of this type for fiscal year 2008-09 were for the Transportation Administration Collection Fund (\$1.1 million) and motorcycle safety fees (\$766,000).

Significant carry-forwards of restricted revenues that have been set aside to finance encumbrances and multi-year projects for fiscal year 2009-10 were for driver fees (\$4.0 million), personal identification card fees (\$2.4 million), and the Transportation Administration Collection Fund (\$2.1 million). Significant carry-forwards of this type for fiscal year 2008-09 were for the Transportation Administration Collection Fund (\$4.4 million), driver fees (\$3.5 million), and personal identification card fees (\$1.6 million).

- 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.

Note 3 Contingencies - Litigation

County Road Association of Michigan et al v John M. Engler et al:

On March 6, 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a complaint in Ingham County Circuit Court challenging various provisions of Executive Order No. 2001-9. The complaint consisted of five counts, one of which alleged that the State violated Article IX, Section 9 of the Michigan Constitution by unlawfully allowing the Department of State to bill the Michigan Department of Transportation for expenses in excess of those necessary to collect motor vehicle taxes and fees.

On August 28, 2008, the Ingham County Circuit Judge issued an Opinion requiring the Department of State to transfer \$7.3 million from fiscal year 2000-01 and \$6.5 million from fiscal year 2001-02 back to the Michigan Transportation Fund and ordering that "an appropriate cost allocation study be

done for use in the future to reflect the current costs associated with the sales tax collection." Both parties appealed this decision.

The Court of Appeals dismissed the case on January 12, 2010. Plaintiff then sought leave to appeal the decision to the Michigan Supreme Court that was denied on September 29, 2010. The Plaintiff filed a motion for reconsideration, and the Supreme Court denied this motion on December 29, 2010. Thus, after eight years of litigation, the transfers from the Michigan Transportation Fund were essentially upheld.

# SUPPLEMENTAL FINANCIAL SCHEDULES



DEPARTMENT OF STATE  
Schedule of Revenue Collections for Other Agencies (1)  
For the Fiscal Years Ended September 30

<u>Agency</u>	<u>2010</u>	<u>2009</u>
Michigan Department of Transportation	\$ 889,224,039	\$ 884,539,247
Michigan Department of Education	630,079,534	640,414,582
Department of State (2)	317,055,662	296,854,391
General Fund (2)	309,064,417	315,224,958
Michigan Department of State Police	27,074,517	27,608,690
Department of Natural Resources (3)	12,302,830	11,797,944
Department of Environmental Quality (3)	3,982,729	3,952,110
Supreme Court	3,133,704	3,076,402
Department of Energy, Labor & Economic Growth	2,033,900	1,840,755
Department of Agriculture	2,000,000	2,000,000
Department of Treasury	378,565	387,955
Department of Human Services	154,160	164,340
Department of History, Arts and Libraries		159,756
Department of Technology, Management & Budget	60,340	61,165
Total	<u>\$ 2,196,544,397</u>	<u>\$ 2,188,082,296</u>

- (1) The Department of State is responsible for collecting taxes, fees, and other revenue related to its own operations and those of certain other State departments. These revenues are collected by the Department of State and sent to the Departments of Transportation; Education; State Police; Natural Resources; Environmental Quality; Energy, Labor & Economic Growth; Agriculture; Treasury; Human Services; History, Arts and Libraries; and Technology, Management & Budget and the Supreme Court. The amounts shown represent only the amounts statutorily collected by the Department of State and do not represent total revenues or other financing sources for other departments.
- (2) The General Fund amounts include revenue that is collected by the Department of State for deposit into the General Fund. The Department of State amounts include revenue collected by the Department of State for its own use, including the General Fund and the Assigned Claims Facility and Plan Fund. The combined total revenues presented for the General Fund and the Department of State differ from the total revenues presented in the Department's schedule of revenues General Fund and other financing sources because the Department's schedule of General Fund revenues and other financing sources does not include revenues collected by the Assigned Claims Facility and Plan Fund. Also, the amounts shown above do not include revenues collected by other State departments for use by the Department of State.
- (3) Effective January 17, 2010, the Department of Natural Resources (DNR) was combined with the Department of Environmental Quality (DEQ) by Executive Order No. 2009-45, forming the Department of Natural Resources and Environment (DNRE). For the purposes of our report, we reported DNR and DEQ separately. Effective March 13, 2011, Executive Order No. 2011-1 subsequently abolished DNRE and reestablished DNR and DEQ.

DEPARTMENT OF STATE  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2008 through September 30, 2010

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2009		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Transportation</u></b>					
Highway Safety Cluster:					
Pass-Through Programs:					
Michigan Department of State Police					
State Traffic Safety Information System Improvement Grants	20.610	TR-08-11	\$ 310,000	\$	\$ 310,000
Incentive Grant Program to Increase Motorcyclist Safety	20.612	MC-09-01		139,729	139,729
Total Highway Safety Cluster			<u>\$ 310,000</u>	<u>\$ 139,729</u>	<u>\$ 449,729</u>
Direct Programs:					
Commercial Driver's License Program Improvement Grant	20.232		\$ 894,406	\$	\$ 894,406
Commercial Drivers License Information System (CDLIS) Modernization Grant	20.238		352,358		352,358
Total Direct Programs			<u>\$ 1,246,764</u>	<u>\$ 0</u>	<u>\$ 1,246,764</u>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 1,556,764</u></b>	<b><u>\$ 139,729</u></b>	<b><u>\$ 1,696,493</u></b>
<b><u>U.S. Election Assistance Commission</u></b>					
Direct Program:					
Help America Vote Act Requirements Payments	90.401		\$ 872,883	\$	\$ 872,883
<b>Total U.S. Election Assistance Commission</b>			<b><u>\$ 872,883</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 872,883</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>					
Direct Program:					
Voting Access for Individuals with Disabilities - Grants to States	93.617		\$ 9,270	\$ 259,398	\$ 268,668
<b>Total U.S. Department of Health and Human Services</b>			<b><u>\$ 9,270</u></b>	<b><u>\$ 259,398</u></b>	<b><u>\$ 268,668</u></b>
<b><u>U.S. Department of Homeland Security</u></b>					
Direct Program:					
Driver's License Security Grant Program	97.089		\$ 170,055	\$ 785,828	\$ 955,883
<b>Total U.S. Department of Homeland Security</b>			<b><u>\$ 170,055</u></b>	<b><u>\$ 785,828</u></b>	<b><u>\$ 955,883</u></b>
Total Expenditures of Federal Awards (3)			<u>\$ 2,608,972</u>	<u>\$ 1,184,955</u>	<u>\$ 3,793,927</u>

- (1) Basis of Presentation: This schedule presents the federal grant activity of the Department of State 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial schedules.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) Federal revenues as reported on the financial schedules will be different from the federal expenditures shown on the schedule of expenditures of federal awards because of the following:
- (a) The Department distributed \$1,388,733 in federal revenue to the Department of Community Health for the Driver's License Security Grant Program. Under State accounting policy, the federal revenue is recognized at the department that has incurred the expenditures.
  - (b) The Department recorded \$806,264 in indirect cost expenditures on its schedule of expenditures of federal awards. Under State accounting policy, the federal revenue associated with these costs was transferred to a Statewide cost pool.

For the Fiscal Year Ended September 30, 2010

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$	\$	\$ 0	\$ 310,000
		0	139,729
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 449,729</u>
\$ 992,921	\$	992,921	\$ 1,887,327
		0	352,358
<u>\$ 992,921</u>	<u>\$ 0</u>	<u>\$ 992,921</u>	<u>\$ 2,239,685</u>
<b><u>\$ 992,921</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 992,921</u></b>	<b><u>\$ 2,689,414</u></b>
\$ 4,934,049	\$	\$ 4,934,049	\$ 5,806,932
<b><u>\$ 4,934,049</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,934,049</u></b>	<b><u>\$ 5,806,932</u></b>
\$ 6,957	\$ 206,503	\$ 213,460	\$ 482,128
<b><u>\$ 6,957</u></b>	<b><u>\$ 206,503</u></b>	<b><u>\$ 213,460</u></b>	<b><u>\$ 482,128</u></b>
\$ 1,610,595	\$ 602,905	\$ 2,213,500	\$ 3,169,383
<b><u>\$ 1,610,595</u></b>	<b><u>\$ 602,905</u></b>	<b><u>\$ 2,213,500</u></b>	<b><u>\$ 3,169,383</u></b>
<u>\$ 7,544,522</u>	<u>\$ 809,408</u>	<u>\$ 8,353,930</u>	<u>\$ 12,147,857</u>



# INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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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

The Honorable Ruth Johnson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Johnson:

We have audited the financial schedules of the Department of State for the fiscal years ended September 30, 2010 and September 30, 2009, as identified in the table of contents, and have issued our report thereon dated April 25, 2011. 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified a deficiency in internal

control over financial reporting, described in the accompanying schedule of findings and questioned costs in Finding 1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### 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 in Finding 2.

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 the Secretary of State, the Legislature, management, others within the Department, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

April 25, 2011



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

Independent Auditor's Report on Compliance With  
Requirements That Could Have a Direct and Material Effect on  
Each Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

The Honorable Ruth Johnson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Johnson:

Compliance

We have audited the Department of State's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the two-year period ended September 30, 2010. 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 of its major federal programs 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 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 Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of State complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the two-year period ended September 30, 2010.

### Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined in the preceding paragraph. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs in Finding 3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Department's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Secretary of State, the Legislature, management, others within the Department, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

April 25, 2011

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?	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?	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</u>
90.401	Help America Vote Act Requirements Payments
97.089	Driver's License Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$364,436

Auditee qualified as a low-risk auditee\*? No

\* See glossary at end of report for definition.

## Section II: Findings Related to the Financial Schedules

### **FINDING (2311101)**

#### 1. Revenue Processing System\* (RPS) Access Controls

The Department of State had not established sufficient controls over access to its RPS to ensure appropriate segregation of duties among users. As a result, the Department could not ensure that it could prevent or detect errors or irregularities that may be caused by users performing unauthorized duties.

Control Objectives for Information and Related Technology\* (COBIT) provides that management should implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process. Also, management should ensure that personnel are performing only authorized duties relevant to their respective jobs and positions.

The Department uses RPS to record transactions related to revenue received by its cashier's office. RPS interfaces with the Michigan Administrative Information Network\* (MAIN), the State's financial accounting system. The Department processed 113,275 revenue transactions totaling \$975.6 million using RPS during the period October 1, 2008 through September 30, 2010.

Our review of system access rights over RPS disclosed:

- a. The Department assigned the role and duties of one of the RPS security administrators to an individual with incompatible responsibilities related to financial reporting. The security administrator role enables a user to manage user accounts and assign access to system resources. One of the RPS security administrators could not only manage user accounts but also enter and approve financial transactions.

Because system administrators have access to privileged information about system access controls, the security administrator role should not be assigned to employees responsible for financial reporting.

\* See glossary at end of report for definition.

- b. The Department did not monitor user activity, including the activity of the security administrators, to ensure that users are performing only authorized activities relevant to their respective job positions. While RPS contained some audit trails identifying which users entered and approved transactions, the security administrator did not routinely review these audit trails to monitor user access. In addition, the Department did not perform independent reviews of security administrator activities.

COBIT states that management should perform a regular review of all accounts and related privileges and a more frequent independent review of users with special privileged access rights.

We noted a similar issue in our performance audit report of the Department's Cash Receipts and Branch Office Customer Service (231-0200-08), which was issued and distributed in May 2009. The Department informed us that it hired a contractor to assist it in exploring alternative strategies over access controls to RPS to improve the segregation of duties among staff.

## **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE DEPARTMENT ESTABLISH SUFFICIENT CONTROLS OVER ACCESS TO ITS RPS TO ENSURE APPROPRIATE SEGREGATION OF DUTIES.

## **FINDING (2311102)**

### **2. Use of State General Fund/General Purpose Appropriations**

The Department did not ensure that State restricted funds were expended before using State General Fund/general purpose appropriations. As a result, the Department used \$2,739,115 in State General Fund/general purpose appropriations that should have been paid for with State restricted funds. Also, as a result, the Department may have avoided the lapsing of these General Fund appropriations.

Section 18.1395 of the *Michigan Compiled Laws* (Act 431, P.A. 1984) requires that, in an appropriation financed by multiple sources, any State General Fund/general purpose appropriation shall be used only after the available State restricted funds have been expended.

Our review of available funds in appropriations financed by both State restricted funds and General Fund/general purpose appropriations disclosed that the Department recorded \$1,331,670 and \$1,407,445 as State General Fund/general purpose appropriations in fiscal years 2009-10 and 2008-09, respectively, to fund information technology services and projects when State restricted funds were available.

We noted the same condition in our prior single audit. The Department stated in its corrective action plan in the prior single audit that it did not agree with this finding because the Legislature approved the carry-forward of both State restricted funds and State General Fund/general purpose funds for its Business Application Modernization (BAM) work project. The Department also stated that all of these funding sources would lapse to the State General Fund/general purpose fund at the end of the project if the funds were not used. However, Section 18.1395 of the *Michigan Compiled Laws* does not permit the Department to first use State General Fund/general purpose appropriations and to reserve State restricted funds for future expenditures related to work projects.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENSURE THAT STATE RESTRICTED FUNDS ARE EXPENDED BEFORE USING STATE GENERAL FUND/GENERAL PURPOSE 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 (2311103)**

#### 3. Driver's License Security Grant Program, CFDA 97.089

U.S. Department of Homeland Security	CFDA 97.089: Driver's License Security Grant Program
Award Number: 2008-ID-T8-0031 2009-ID-MX-0013	Award Period: 06/01/2008 - 05/31/2011 07/01/2009 - 06/30/2012
	Known Questioned Costs: \$0

The Department's internal control over the Driver's License Security Grant (DLSG) Program may not ensure its compliance with federal laws and regulations regarding procurement and suspension and debarment.

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

Federal expenditures for the DLSG Program totaled \$3.2 million for the two-year period ended September 30, 2010.

Our review disclosed that the Department, in conjunction with the Department of Technology, Management & Budget (DTMB), did not execute an amendment to an existing contract to amend hourly rates for system enhancements to implement the DLSG Program. Although the Department approved a change request submitted by the contractor to modify hourly rates which, in effect, increased the amount allocated for system enhancements by \$38,451, the Department did not request a modification to the existing contract through DTMB, as required. Also, the Department, in conjunction with DTMB, did not obtain State Administrative Board approval of this contract modification. Subsequent to bringing this matter to the Department's attention, the contractor agreed to reduce future billings to the Department by \$38,451. Because the Department had not yet expended all amounts under this contract modification, we did not report questioned costs.

\* See glossary at end of report for definition.

Title 44, Part 13, section 36 of the *Code of Federal Regulations*\* (*CFR*) requires that the Department follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration for a federal award.

DTMB Administrative Guide procedure 0610.02 requires departments, in conjunction with DTMB, to execute amendments to contracts not within the departments' delegated authority when requested changes impact price, cost, or fees. Also, DTMB Administrative Guide procedure 0620.01 and State Administrative Board Resolution 2003-1 require approval by the State Administrative Board prior to the grant or contract execution (with the exception of emergency contracts involving health and safety and contracts mandated by court order) for all grants and contractual agreements of \$25,000 or more, contract or grant extensions which reach the amount of \$25,000 or more, and grant or contract amendments of \$25,000 or more.

### **RECOMMENDATION**

We recommend that the Department improve its internal control over the DLSG Program to ensure compliance with federal laws and regulations regarding procurement and suspension and debarment.

\* See glossary at end of report for definition.

## OTHER SCHEDULES

DEPARTMENT OF STATE  
Summary Schedule of Prior Audit Findings  
As of April 25, 2011

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2310901  
**Finding Title:** Revenue Distribution Transactions

**Finding:** The Department of State had not established sufficient controls over the processing of automated revenue distribution transactions.

**Agency Comments:** The Department has corrected the deficiencies noted. The Department worked with the Department of Technology, Management & Budget (DTMB) to restrict access to the crosswalk tables to two DTMB employees. The Department also developed a new process to review and document changes to the crosswalk tables and added staff to monitor the revenue reconciliation process.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2006 through September 30, 2008  
**Finding Number:** 2310902  
**Finding Title:** Use of State General Fund/General Purpose Appropriations

**Finding:** The Department did not ensure that State restricted funds were expended before using State General Fund/general purpose appropriations.

**Agency Comments:** The Department of State disagrees that it used State General Fund/general purpose appropriations when it should have used State restricted funds and avoided lapsing of General Fund/general purpose appropriations because the restricted funding sources for the work project in this account were approved by the Legislature. However, the Department plans to lapse any unused work project funds to the State General Fund/general purpose fund at the end of the project.

#### **PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

There were no findings related to federal awards in the prior single audit.

DEPARTMENT OF STATE  
Corrective Action Plan  
As of April 28, 2011

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 2311101  
**Finding Title:** Revenue Processing System Access Controls

**Management Views:** The Department of State agrees with the finding and also agreed with the finding issued in May 2009 as part of the Cash Receipts and Branch Office Customer Service audit. The Department informed the Office of the Auditor General (OAG) that since 2009, it has been working toward compliance as detailed in the corrective action plan that was submitted in September 2009.

**Planned Corrective Action:** The Department has complied with this recommendation as of March 1, 2011. A new security administrator role was established and assigned to an employee who is not responsible for financial reporting. The Department worked with the vendor to enhance the audit trails contained in RPS to record all changes made to the system. A new report was also added that details all changes to the RPS security and role data for review by the chief accountant on a periodic basis.

**Anticipated Completion Date:** Completed

**Responsible Individual:** Cindy Paradine

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**Finding Number:** 2311102  
**Finding Title:** Use of State General Fund/General Purpose Appropriations

**Management Views:** The Department does not agree with the finding. The Department informed the OAG that it received an appropriation increase funded by an increase in State General Fund/general purpose, driver fees, and personal identification card fees to finance the Business Application Modernization (BAM) work project. The Department also had boilerplate language designating this as a work project. In addition, the State Budget Office and the State Legislature approved the BAM work project for both appropriation years 2009 and 2010 under "Appropriations Designated As Work Projects By Law" using \$2.75 million of State General Fund/general purpose, \$1 million of driver fees, and \$.8 million of personal identification card fees as the funding sources. The Department informed the OAG that all of these funding sources would lapse to the State General Fund/general purpose fund at the end of the project if the funds were not used.

**Planned Corrective Action:** The Department agrees to lapse any unused work project funds to the State General Fund/general purpose fund.

**Anticipated Completion Date:** October 2012

**Responsible Individual:** Cindy Paradine

**Auditor's Epilogue** The OAG noted that the Department did receive an appropriation increase of approximately \$3.3 million in its line item for information technology services and projects in fiscal year 2003-04, which is when the Department initially obtained boilerplate authorization for its BAM work project. In addition, the OAG noted that there was an increase in funding from State General Fund/general purpose appropriations of approximately \$3.1 million and from personal identification card fees of \$.8 million. However, the

OAG also noted that there was no change in funding from driver fees. While the OAG agrees that there is nothing to prevent the Department from designating both State General Fund/general purpose appropriations and State restricted funds to fund this work project, this does not provide the Department with the authority to expend State General Fund/general purpose appropriations prior to available State restricted funds.

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 2311103  
**Finding Title:** Driver's License Security Grant Program,  
*CFDA 97.089*

**Management Views:** The Department does not agree with this finding. The Department informed the OAG that since the hourly rates contained in the change request to implement the Driver's License Security Grant (DLSG) Program were incorrect and did not result in an increase of the contract value, an amendment to the existing contract and State Administrative Board approval was not required. In addition, the vendor has agreed to issue the Department a credit for \$38,451.

**Planned Corrective Action:** The Department agrees to improve the review process for contract change requests.

**Anticipated Completion Date:** October 2012

**Responsible Individual:** Cindy Paradine

# GLOSSARY

## Glossary of Acronyms and Terms

Business Application Modernization (BAM)	A multi-phase information technology project designed to modernize the technical infrastructure of the Department of State's systems and business processes related to branch office transactions and activities related to driving records.
<i>Catalog of Federal Domestic Assistance (CFDA)</i>	The catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.
deficiency in internal control over federal program compliance	The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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 and correct, misstatements on a timely basis.
DEQ	Department of Environmental Quality.
DLSG	Driver's License Security Grant.
DNR	Department of Natural Resources.
DNRE	Department of Natural Resources and Environment.
DTMB	Department of Technology, Management & Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are 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 deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

material weakness in internal control over financial reporting

A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

Michigan Administrative Information Network (MAIN)

The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.

OAG

Office of the Auditor General.

other noncompliance

Violations of contracts or grant agreements that are not material to the financial schedules and/or financial statements but should be communicated to management in accordance with *Government Auditing Standards*. Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with *Government Auditing Standards*.

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.
Revenue Processing System (RPS)	The Department of State system used to record transactions related to revenue received by the Department's central cashier office.
significant deficiency in internal control over federal program compliance	A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in

*Government Auditing Standards* issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

*SOMCAFR*

*State of Michigan Comprehensive Annual Financial Report.*

subrecipient

A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion

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

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

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

A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.





