



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
 251-0100-10

Department of History, Arts and Libraries

October 1, 2008 through September 30, 2009

Released:
 March 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.

Background:

The Department of History, Arts and Libraries (HAL) was created in August 2001 by Act 63, P.A. 2001 (Sections 399.701 - 399.722 of the *Michigan Compiled Laws*). Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State.

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Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on HAL's financial schedules.

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Internal Control Over Financial Reporting:

We identified significant deficiencies in internal control over financial reporting (Findings 1 through 3).

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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 instances of noncompliance (Findings 2 and 3).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 3 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$7,207 and known and likely questioned costs totaling \$131,827. HAL expended a total of \$7.5 million in federal awards, including \$345,100 of ARRA funding, during the one-year period ended September 30, 2009. We issued 3 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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Internal Control Over Major Programs

We identified significant deficiencies in internal control over federal program compliance (Findings 4 and 5).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4 and 5).

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Systems of Accounting and Internal Control:

We determined that HAL was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*. However, we did identify significant deficiencies related to Section 18.1485 (Findings 1 through 3).

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
15.904	Historic Preservation Grants-In-Aid	Unqualified
45.025	<u>Promotion of the Arts - Partnership Agreements</u> <ul style="list-style-type: none"> • Promotion of the Arts - Partnership Agreements • ARRA - Promotion of the Arts - Partnership Agreements 	Unqualified
45.310	Grants to States	Unqualified

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



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Thomas H. McTavish, C.P.A.
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March 29, 2011

John E. Nixon, C.P.A., State Budget Director
State Budget Office
Department of Technology, Management & Budget
George W. Romney Building
Lansing, Michigan
and
Mr. Michael P. Flanagan
Superintendent of Public Instruction
Michigan Department of Education
John A. Hannah Building
Lansing, Michigan
and
Mr. Gary Heidel, Executive Director
Michigan State Housing Development Authority
735 East Michigan Avenue
Lansing, Michigan

Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Nixon, Mr. Flanagan, Mr. Heidel, Mr. Stokes, and Mr. Finney:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of History, Arts and Libraries (HAL) for the period October 1, 2008 through September 30, 2009.

Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State. As a result of this order, HAL's federally funded programs were transferred to the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund. In addition, the order transferred any authority, powers, duties, functions, and responsibilities not otherwise provided for in the order to the Department of Natural Resources.

This report contains our report summary, our independent auditor's report on the financial schedules, and HAL's 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 HAL's summary schedule of prior audit findings, the agencies' 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 agencies' preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies 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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Independent Auditor's Report on
the Financial Schedules

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George W. Romney Building
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Superintendent of Public Instruction
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Michigan State Housing Development Authority
735 East Michigan Avenue
Lansing, Michigan

Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Nixon, Mr. Flanagan, Mr. Heidel, Mr. Stokes, and Mr. Finney:

We have audited the accompanying financial schedules of the Department of History, Arts and Libraries for the fiscal year ended 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 the sources and disposition of authorizations for the Department of History, Arts, and Libraries' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and the sources and disposition of authorizations of the Department of History, Arts and Libraries for the fiscal year ended September 30, 2009 on the basis of accounting described in Note 1.

As discussed in Note 4 to the financial schedules, the Department of Histories, Arts and Libraries was abolished effective October 1, 2009 and its functions and budgetary resources were transferred to several other principal departments and agencies within the State.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 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*, is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

February 15, 2011

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of General Fund Revenues
Fiscal Years Ended September 30

	<u>2009</u>
REVENUES	
From federal agencies	
Institute of Museum and Library Services	\$ 5,251,382
U.S. Department of the Interior	942,999
National Endowment for the Arts	1,133,855
Other federal funds	<u>159,546</u>
Total from federal agencies	\$ 7,487,782
From services	374
Miscellaneous revenue (Note 2)	<u>3,552,009</u>
Total revenues	<u><u>\$ 11,040,165</u></u>

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

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30

	2009
SOURCES OF AUTHORIZATIONS (Note 3)	
General purpose appropriations	\$ 38,246,000
Balances carried forward	1,567,928
Restricted financing sources	12,580,364
Less: Intrafund expenditure reimbursements	(1,605,818)
Total	\$ 50,788,474
 DISPOSITION OF AUTHORIZATIONS (Note 3)	
Gross expenditures and transfers out	\$ 50,440,406
Less: Intrafund expenditure reimbursements	(1,605,818)
Net expenditures and transfers out	\$ 48,834,588
 Balances carried forward (Note 4)	
Encumbrances	\$ 53,434
Restricted revenues - authorized	1,294,741
Restricted revenues - not authorized or used	509,173
Total balances carried forward	\$ 1,857,348
Balances lapsed	\$ 96,538
Total	\$ 50,788,474

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of History, Arts and Libraries (HAL) for the fiscal year ended September 30, 2009. The financial transactions of HAL are accounted for primarily 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 HAL. 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.

The financial schedules do not include the financial activities related to the State Records Management Program's microfilm funds which are accounted for in the Office Services Revolving Fund, an internal service fund. This Fund is audited separately.

The Mackinac Island State Park Commission (MISPC) is a component unit of the State of Michigan and is reported on in the *SOMCAFR*. MISPC is funded by the Mackinac Island State Park Fund, airport and park operation fees, and General Fund support received through HAL. A portion of MISPC's financial transactions are recorded in the Michigan Administrative Information Network* (MAIN) within HAL's accounts. These financial transactions are the responsibility of MISPC. HAL receives an annual intrafund expenditure reimbursement from MISPC for the portion of expenditures contained in HAL's accounts that are funded by the Mackinac Island State Park Fund and airport and park operation fees. MISPC receives a separate annual financial audit of its Historic Parks

* See glossary at end of report for definition.

Division. The activity of the Historic Parks Division is not recorded in MAIN.

In fiscal year 2008-09, the Michigan Lighthouse Preservation Fund was reclassified from a private-purpose trust fund within a fiduciary fund to a State restricted fund within the General Fund. As a result of this reclassification, the Michigan Lighthouse Preservation Fund became part of HAL's reporting entity and increased HAL's miscellaneous revenue by \$944,884 in fiscal year 2008-09.

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 dispositions of authorizations of HAL's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either HAL or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Miscellaneous Revenue

Significant miscellaneous revenue on the schedule of General Fund revenues includes \$944,884 from lighthouse license plate fees; \$549,494 from record center relocation fees; \$433,524 from Heritage Publications magazine subscriptions; and \$311,007 from museum stores operations in fiscal year 2008-09.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/General Purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used. Significant balances carried forward by HAL into fiscal year 2008-09 include \$443,251 from Heritage Publications magazine subscriptions and \$409,573 from the History, Arts and Libraries Fund, both of which were carried forward as restricted revenues - authorized.
- 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.
 HAL's significant restricted financing sources include:

	Fiscal Year 2008-09
Library Services and Technology Act Federal Grants	\$5,251,382
Mackinac Island State Park Commission Historical Facilities System	\$1,432,512
National Endowment for the Arts	\$1,133,885
Michigan Lighthouse Preservation Fund	\$ 944,884
National Parks Service	\$ 942,999
Museum Store Operations	\$ 564,915
IDG - Agency Relocation Assessments	\$ 549,494
Heritage Publications Magazine Subscriptions	\$ 466,070
HAL Service Fund	\$ 432,074

- d. Intrafund expenditure reimbursements: Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Significant expenditure reimbursements of \$1,400,000 were received from the Mackinac Island State Park Fund for fiscal year 2008-09.

- e. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

- f. Restricted revenues - authorized: Revenues that, by statute or the Michigan Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization. Significant restricted revenues - authorized for HAL in fiscal year 2008-09 included \$709,652 from the Michigan Lighthouse Preservation Fund.

- g. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation.

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

Note 4 Subsequent Events

Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State, including the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund.

SUPPLEMENTAL
FINANCIAL SCHEDULE

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2008 through September 30, 2009

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Department of the Interior</u>					
Direct Programs:					
Historic Preservation Fund Grants-In-Aid	15.904		\$ 834,472	\$ 120,411	\$ 954,883
Save America's Treasures	15.929		11,687		11,687
Total U.S. Department of the Interior			\$ 846,159	\$ 120,411	\$ 966,570
<u>U.S. Department of Transportation</u>					
Pass-Through Program:					
		ENH200500043			
Michigan Department of Transportation		STP 0784(031)			
Highway Planning and Construction	20.205	STP 0884(048)	\$ 24,699	\$ 51,026	\$ 75,725
Total U.S. Department of Transportation			\$ 24,699	\$ 51,026	\$ 75,725
<u>National Endowment for the Arts</u>					
Direct Programs:					
Promotion of the Arts - Partnership Agreements	45.025		\$ 26,800	\$ 761,955	\$ 788,755
ARRA - Promotion of the Arts - Partnership Agreements	45.025			345,100	345,100
Total National Endowment for the Arts			\$ 26,800	\$ 1,107,055	\$ 1,133,855
<u>Institute of Museum and Library Services</u>					
Direct Programs:					
Conservation Project Support	45.303		\$ 85,937	\$	\$ 85,937
Grants to States	45.310		5,251,382		5,251,382
Total Institute of Museum and Library Services			\$ 5,337,319	\$ 0	\$ 5,337,319
<u>National Archives and Records Administration</u>					
Direct Program:					
National Historical Publications and Records Grants	89.003		\$ 21,340	\$	\$ 21,340
Total National Archives and Records Administration			\$ 21,340	\$ 0	\$ 21,340
Total Expenditures of Federal Awards			\$ 6,256,317	\$ 1,278,492	\$ 7,534,809

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of History, Arts and Libraries on the modified accrual basis of accounting and in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

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

INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND COMPLIANCE



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

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Lansing, Michigan
and
Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Nixon, Mr. Flanagan, Mr. Heidel, Mr. Stokes, and Mr. Finney:

We have audited the financial schedules of the Department of History, Arts and Libraries for the fiscal year ended September 30, 2009, as identified in the table of contents, and have issued our report thereon dated February 15, 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.

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 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 through 3 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 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 instances of noncompliance as described in the accompanying schedule of findings and questioned costs as Findings 2 and 3.

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

This report is intended solely for the information and use of the Governor; the Legislature; management, including the Department of Technology, Management & Budget, the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund; 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

February 15, 2011



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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

John E. Nixon, C.P.A., State Budget Director
State Budget Office
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Mr. Michael Finney, President
Michigan Strategic Fund
300 North Washington Square
Lansing, Michigan

Dear Mr. Nixon, Mr. Flanagan, Mr. Heidel, Mr. Stokes, and Mr. Finney:

Compliance

We have audited the compliance of the Department of History, Arts and Libraries 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 one-year period ended September 30, 2009. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the 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 History, Arts and Libraries 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 one-year period ended September 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 4 and 5.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified 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 Findings 4 and 5 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. We did not consider any of the deficiencies described in the preceding paragraph to be material weaknesses.

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

This report is intended solely for the information and use of the Governor; the Legislature; management, including the Department of Technology, Management & Budget, the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund; 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

February 15, 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 that are not considered to be material weaknesses? Yes

Noncompliance or other matters material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses* identified? No

Significant deficiencies* identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.904	Historic Preservation Grants-In-Aid
45.025	<u>Promotion of the Arts - Partnership Agreements</u> <ul style="list-style-type: none"> • Promotion of the Arts - Partnership Agreements • ARRA - Promotion of the Arts - Partnership Agreements
45.310	Grants to States

* See glossary at end of report for definition.

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 2511001

1. Internal Control Over Revenue

The Department of History, Arts and Libraries' (HAL's) internal control over financial reporting did not ensure that HAL maintained an adequate system of authorization for the processing of revenue transactions.

Internal control is 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.

Section 18.1485 of the *Michigan Compiled Laws* requires State agencies to establish and maintain an internal accounting and administrative control system that includes a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient.

HAL's internal control over the processing of revenue transactions began to break down when key business staff began leaving HAL for other employment, as early as March 2009. Our review of 11 cash deposits totaling \$1,564,886 disclosed that 6 (55%) totaling \$1,525,682 (97%) were initiated and approved by the same employee. We found all 6 approval exceptions occurred after May 2, 2009 when the key business staff member responsible for processing deposits left HAL for

* See glossary at end of report for definition.

other employment. In addition, our review of a common cash interest earnings reclassification processed in July 2009 for \$3,685 was not properly approved in accordance with HAL's approval procedure. We have noted similar weaknesses in Finding 2.

Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State, including the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund.

The executive order also stated that the State Budget Director shall determine and authorize the most efficient manner possible for handling HAL's financial transactions and records in MAIN, including but not limited to, for the fiscal year ended September 30, 2010. Consequently, we have addressed our recommendation to the State Budget Office.

RECOMMENDATION

We recommend that the State Budget Office ensure that departments maintain internal control over financial reporting to ensure adequate systems of authorization for the processing of revenue transactions.

FINDING (2511002)

2. Internal Control Over Expenditures

HAL's internal control over financial reporting did not ensure that HAL recorded expenditures in accordance with State law and State financial management policies and procedures.

Internal control is 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.

Our review of HAL's fiscal year 2008-09 expenditure transactions disclosed:

- a. HAL recorded expenditures within an appropriation line item not authorized by the Legislature. As a result, the Legislature's authority to review and approve budgetary spending was circumvented.

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

Our review of HAL's 32 workers' compensation transactions for fiscal year 2008-09 disclosed that HAL transferred \$21,236 of workers' compensation expenditures from HAL's workers' compensation appropriation to HAL's management services appropriation. If these expenditures remained in HAL's workers' compensation appropriation, the appropriation would have been overexpended by this amount. Consequently, HAL transferred these expenditures to its management services appropriation, which resulted in HAL recording the expenditures within an appropriation line item not authorized by the Legislature.

- b. HAL's internal control over expenditures did not ensure proper approval of transactions.

Section 18.1485 of the *Michigan Compiled Laws* requires State agencies to establish and maintain an internal accounting and administrative control system that includes a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; qualified personnel that maintain a level of competence; and internal control techniques that are effective and efficient.

HAL's system of authorization began to break down when key business staff began leaving HAL for other employment, as early as March 2009. Our review of 32 fiscal year 2008-09 expenditure transactions processed in and after March 2009 disclosed that approvals for 3 (9%) transactions totaling \$263,500

were not appropriately documented in accordance with HAL's approval process.

Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State, including the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund.

The executive order also stated that the State Budget Director shall determine and authorize the most efficient manner possible for handling HAL's financial transactions and records in MAIN, including but not limited to, for the fiscal year ended September 30, 2010. Consequently, we have addressed our recommendation to the State Budget Office.

RECOMMENDATION

We recommend that the State Budget Office ensure that departments maintain internal control over financial reporting to ensure that expenditures are recorded in accordance with State law and State financial management policies and procedures.

FINDING (2511003)

3. Internal Control Over Financial Reporting

HAL's internal control over financial reporting did not ensure that HAL prepared its schedule of expenditures of federal awards (SEFA) in accordance with State law; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and State financial management policies.

Internal control is 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. Further, Section 18.1485 of the *Michigan Compiled Laws* requires HAL to establish and maintain an internal accounting and administrative control system that includes recordkeeping procedures to control

assets, liabilities, revenues, and expenditures and internal control techniques that are effective and efficient.

OMB Circular A-133 requires that HAL identify, in its accounts, all federal awards received and expended. OMB Circular A-133 also requires that HAL's SEFA report total federal awards expended for each individual federal program and the amounts provided to subrecipients. In addition, Part II, Chapter 24, Section 100 of the State of Michigan Financial Management Guide requires that the SEFA include the portion of federal assistance that was expended directly by the department or distributed to subrecipients.

Although the following errors were corrected for the SEFA presented in this report, our review of HAL's draft of the SEFA disclosed the following discrepancies:

- a. HAL's accounting records did not support the expenditures as presented on the SEFA. As a result, HAL understated the amounts expended on the SEFA by \$15,450.

HAL did not include all expenditures on its SEFA for Highway Planning and Construction (*CFDA* 20.205). Our review disclosed that HAL's query of expenditures from Michigan Administrative Information Network (MAIN) that was used to support the SEFA inadvertently excluded \$12,579 of Highway Planning and Construction Program expenditures.

- b. HAL's internal control did not ensure that the total amount provided to subrecipients for each federal program was accurately identified on the SEFA. As a result, HAL understated expenditures directly expended and overstated expenditures distributed to subrecipients by \$11,687 for Save America's Treasures (SAT) (*CFDA* 15.929).

HAL inadvertently recorded all SAT Program expenditures in MAIN as subrecipient expenditures. However, our review disclosed that all of these expenditures were directly expended by HAL.

Effective October 1, 2009, Executive Order No. 2009-36 abolished HAL and transferred its functions and budgetary resources to several other principal departments and agencies within the State, including the Michigan Department of

Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund.

The executive order also stated that the State Budget Director shall determine and authorize the most efficient manner possible for handling HAL's financial transactions and records in MAIN, including but not limited to, for the fiscal year ended September 30, 2010. Consequently, we have addressed our recommendation to the State Budget Office.

RECOMMENDATION

We recommend that the State Budget Office ensure that departments maintain internal control over financial reporting to ensure that SEFAs are prepared in accordance with State law; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and State financial management policies.

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

FINDING (2511004)

4. Promotion of the Arts - Partnership Agreements, CFDA 45.025

National Endowment for the Arts	CFDA 45.025: Promotion of the Arts - Partnership Agreements CFDA 45.025: ARRA - Promotion of the Arts - Partnership Agreements
Award Number: 08-6100-2008 09-6188-2077	Award Period: 10/01/2008 - 09/30/2009 04/01/2009 - 09/30/2009
	Known Questioned Costs: Undeterminable

The Promotion of the Arts - Partnership Agreements Program's internal control did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, and subrecipient monitoring.

* See glossary at end of report for definition.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Promotion of the Arts - Partnership Agreements awards.

Federal expenditures for the Program totaled \$1,133,855, including \$345,100 of ARRA funding, for the fiscal year ended September 30, 2009, of which \$1,107,055 was distributed to subrecipients.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Program's internal control did not ensure that expenditures met the allowable cost principles of OMB Circular A-87.

Appendix A, section C.1.c of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Title 2, Part 225 of the *Code of Federal Regulations [CFR]*), states that, for a cost to be an allowable federal cost, it must be authorized or not prohibited under state or local laws or regulations. In addition, federal regulation 45 *CFR* 1157.22 provides that state dollars used as matching funds for federal awards are also subject to the allowable cost requirements of the program. Section 18.1422 of the *Michigan Compiled Laws* (a section of Act 431, P.A. 1984, as amended) requires that an advance will not be made unless approved by the director of the Department of Technology, Management & Budget (DTMB). Further, DTMB Administrative Guide procedure 1270.03 requires that, when requesting advances for a federally funded program, the federal funding be obtained prior to the issuance of State Treasurer warrants.

We reviewed payments related to 28 of 319 subrecipient contracts during fiscal year 2008-09. Each contract contained predetermined payment schedules that provided for advance payments throughout the grant period with a final payment to be withheld until receipt of the subrecipient's final report. Our review disclosed that for the 28 subrecipient contracts, the Program advanced \$1,301,300 (\$137,055 in federal funds and \$1,164,245 in State matching funds) of a total of \$1,527,300 (85%) without obtaining prior approval from DTMB.

b. Cash Management

The Program's internal control did not ensure that it complied with federal cash management requirements.

Federal regulation 31 *CFR* 205.33(a) requires that the transfer of funds to a state must be limited to the state's minimum amounts needed and the disbursement must be timed in accord with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project.

As discussed in the Allowable Costs/Cost Principles section (part a.) of this finding, the Program advanced funds to its subrecipients rather than reimbursing subrecipients based on actual expenditures incurred. The Program subsequently drew down the federal funds prior to receiving documentation that actual expenditures had occurred.

Because the actual amount of expenditures incurred by the Program's subrecipients at the time of the drawdown of the federal funds was unknown, the amount of questioned costs is undeterminable.

c. Subrecipient Monitoring

The Program's internal control was not effective in ensuring compliance with the subrecipient monitoring requirement in accordance with the pass-through entity responsibilities identified in OMB Circular A-133, Section 400(d)(3). As a result, Program staff could not be assured that federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved.

The Program's subrecipient monitoring activities consisted of reviewing and approving applications of grantees, reviewing subrecipients' periodic expenditure reports, and conducting site visits at the subrecipients. Program staff informed us that they conducted site visits to ensure that the grantees performed the activities for which they were contracted and to check the quality of exhibits and performances. However, Program staff did not conduct site visits at 306 (96%) of the 319 subrecipients in fiscal year 2008-09 and had not developed a policy for determining how many subrecipient site visits

should be conducted each year, how subrecipients should be selected for site visits, or how site visits should be conducted.

RECOMMENDATION

We recommend that the Promotion of the Arts - Partnership Agreements Program improve its internal control to ensure compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, and subrecipient monitoring.

FINDING (2511005)

5. Grants to States, CFDA 45.310

Institute of Museum and Library Services	CFDA 45.310: Grants to States
LS-00-08-0023-08	10/01/2007 - 09/30/2009
LS-00-09-0023-09	10/01/2008 - 09/30/2010
	Known Questioned Costs: \$7,207

The Grants to States Program's internal control did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and 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 Grants to States awards.

Federal expenditures for the Program totaled \$5.3 million for the fiscal year ended September 30, 2009. We identified known questioned costs of \$7,207 and known and likely questioned costs of \$131,827.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

The Program's internal control did not ensure that expenditures met the allowable cost principles of OMB Circular A-87 (federal regulation 2 *CFR* 225). Our review disclosed:

- (1) As noted in part b. of this finding, the Program did not enter into a written contract for 2 (22%) of 9 procurements that we reviewed which required a contract.

OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs be authorized or not prohibited under state or local laws or regulations. DTMB Administrative Guide procedure 0510.01 requires that a contract be used for all professional services, both short-term and long-term, and for recurring services.

The Program obtained Michigan eLibrary (MeL) server hosting services from the Michigan Department of Information Technology (MDIT) and maintenance services from an external vendor, both of which covered services provided for the entirety of fiscal year 2008-09. However, the Program did not enter a signed contract for MDIT (now consolidated within DTMB) services and did not extend its original contract with the external vendor, which ended May 18, 2009. For these MeL services, we estimate that the Program paid the external vendor \$124,620 for services not covered by the original contract. We identified the amounts paid to the external vendor as likely questioned costs of \$124,620.

- (2) The Program did not complete 2 (5%) of 42 required semiannual certifications for 21 employees who worked 100% of their time on the Program. These payroll expenditures, totaling \$7,207, were State-funded and used to match the federal grant awards for the Program. As a result, we identified known questioned costs of \$7,207.

Appendix B, section 8.h. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires certifications, at least semiannually, for employees who work solely on a single federal award.

We noted a similar condition in the prior audit. Program staff responded that they would require certifications for all staff who work 100% of their time on the Program, including staff used as a match for the Program.

- (3) The Program did not maintain adequate documentation to support maintenance payments charged to the MeL Search Gateway and the Michigan eLibrary Catalog (MeLCat).

According to the vendor contract for the MeL Search Gateway and the MeLCat, maintenance charges were subject to a possible price increase above the base price of \$303,120, which was not to exceed 5% per year of the yearly maintenance amount, or the annual consumer price index (CPI), whichever was less. Our review of the Program's fiscal year 2008-09 payment to the vendor of \$336,936 disclosed that the payment included an increase of \$15,420 from the fiscal year 2007-08 payment as a result of an increase in the annual CPI. However, this increase was reported by the vendor and the Program did not independently verify the accuracy of the CPI increase before processing the payment. Upon our request, Program staff obtained support of the CPI increase and we were able to calculate that the CPI applied to the fiscal year 2008-09 billing was accurate.

Appendix A, section C.1.j. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs charged to federal programs be adequately documented.

- (4) The Program did not maintain a segregation of duties for the submission and approval of 2 (9%) of 22 payroll transactions that we reviewed. For these transactions, the employee's supervisor both entered the employee's time sheet and approved the entry of that data for two consecutive pay periods. Program staff informed us that this occurred because the employee telecommuted and traveled often during our audit period and was not available during these two periods to enter her payroll data into the Data Collection and Distribution System* (DCDS). However, the employee did not subsequently authorize the time that was entered on her behalf.

* See glossary at end of report for definition.

Internal control weaknesses increase the risk that improper payroll expenditures could occur. Internal control is a process designed to prevent errors from occurring and to detect errors or irregularities in a timely manner.

b. Procurement and Suspension and Debarment

The Program's internal control did not ensure that its procurement and suspension and debarment practices for the Program were in compliance with applicable federal laws and regulations.

Appendix A, section C.1.c. of OMB Circular A-87 (federal regulation 2 *CFR* 225) requires that costs be authorized or not prohibited under state or local laws or regulations. DTMB Administrative Guide procedure 0510.01 requires that a contract be used for all professional services, both short-term and long-term, and for recurring services.

As discussed in part a.(1) of this finding, the Program did not enter into a written contract for 2 (22%) of 9 procurements that we reviewed which required a contract. We identified likely questioned costs in part a.(1) of this finding.

RECOMMENDATION

We recommend that the Grants to States Program improve its internal control to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and procurement and suspension and debarment.

OTHER SCHEDULES

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES
Summary Schedule of Prior Audit Findings
As of February 15, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Effective October 1, 2009, Executive Order No. 2009-36 abolished the Department of History, Arts and Libraries (HAL) and transferred its functions and budgetary resources to several other principal departments and agencies within the State, including the Michigan Department of Education, the Michigan State Housing Development Authority, the Department of Natural Resources, and the Michigan Strategic Fund. As a result, the internal control weaknesses cited in the prior audit findings related to the financial schedules no longer exist and a summary of those findings was not necessary.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2006 through September 30, 2008

Finding Number: 2510906

Finding Title: Historic Preservation Fund Grants-In-Aid, *CFDA* 15.904

Finding: HAL's internal control over the Historic Preservation Fund Grants-In-Aid (HPF) Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; and matching, level of effort, and earmarking.

Agency Comments: The State Historic Preservation Office (SHPO) has instituted a procedure to ensure that employee time and attendance records are approved within the Data Collection and Distribution System (DCDS) time and attendance limitations.

Part b.(2) was a finding brought to the attention of HAL and the SHPO in February 2007. Upon notification by the auditors,

SHPO immediately instituted a policy to track annual payroll expenditures charged to the HPF Program and HPF matching expenditures using paper time sheets. Beginning May 20, 2007 to present, actual payroll expenditures charged to the HPF Program and actual time charged to State-funded matching expenditures are entered directly into DCDS each pay period.

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 2510907
Finding Title: Save America's Treasures (SAT), *CFDA* 15.929

Finding: HAL's internal control over the SAT Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and matching, level of effort, and earmarking.

Agency Comments: The SHPO will ensure that it obtains semiannual certifications from employees who work 100% of their time on a federal grant.

The SHPO changed its policy on personnel activity reports to meet the auditors' interpretation of the requirements of Title 2, Part 255 of the *Code of Federal Regulations*.

The SHPO has instituted a procedure to ensure that employee time and attendance records are approved with DCDS time limitations.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2006 through September 30, 2008
Finding Number: 2510908
Finding Title: Grants to States, *CFDA* 45.310

Finding: HAL's internal control over the Grants to States Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; and reporting.

Agency Comments: In regards to matching, level of effort, and earmarking (Finding 2510908, parts a.(1), b.(1)(a)., b.(2), and c.(1)), the Library of Michigan did not agree with these findings and feels that the annual financial and statistical reports filed by public libraries and reviewed by Library of Michigan staff meet federal allowable cost/cost principle requirements.

In regards to staff time certifications (Finding 2510908, parts a.(2) and b.(1)(b)), the Library of Michigan now requires semiannual staff time certification for all staff members who work 100% on federal programs and for staff whose salaries are used as match. Program staff request required financial information from the accounting office, and both offices review the final report prior to submitting it to the federal agency.

In regards to internal control issues (Finding 2510908, parts c.(2) and c.(3)), Program staff request required financial information from the accounting office, and both offices review the final report prior to submitting it to the federal agency.

DEPARTMENT OF HISTORY, ARTS AND LIBRARIES

Corrective Action Plan

As of February 18, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 2511001

Finding Title: Internal Control Over Revenue

Management Views: The State Budget Office agrees with the recommendation. The State Budget Office believes that the existing policies and procedures requiring departments to establish and maintain systems of internal control are effective, but it recognizes that they do not specifically address unique situations such as this, where a department was abolished.

Planned Corrective Action: The State Budget Office will assess the existing internal control policies and procedures and make any necessary revisions.

Anticipated Completion Date: Ongoing

Responsible Individual: Michael Moody, Director, Office of Financial Management, State Budget Office

Finding Number: 2511002

Finding Title: Internal Control Over Expenditures

Management Views: The State Budget Office agrees with the recommendation. The State Budget Office believes that the existing policies and procedures requiring departments to establish and maintain systems of internal control are effective, but it recognizes that they do not specifically address unique situations such as this, where a department was abolished.

Planned Corrective Action: The State Budget Office will assess the existing internal control policies and procedures and make any necessary revisions.

Anticipated Completion Date: Ongoing

Responsible Individual: Michael Moody, Director, Office of Financial Management, State Budget Office

Finding Number: 2511003

Finding Title: Internal Control Over Financial Reporting

Management Views: The State Budget Office agrees with the recommendation. The State Budget Office believes that the existing policies and procedures requiring departments to establish and maintain systems of internal control are effective, but it recognizes that they do not specifically address unique situations such as this, where a department was abolished.

Planned Corrective Action: The State Budget Office will assess the existing internal control policies and procedures and make any necessary revisions.

Anticipated Completion Date: Ongoing

Responsible Individual: Michael Moody, Director, Office of Financial Management, State Budget Office

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 2511004
Finding Title: Promotion of the Arts - Partnership Agreements,
CFDA 45.025

Management Views:

- a. The Michigan Council for Arts and Cultural Affairs (MCACA) agrees that funding was advanced to subrecipients without obtaining prior approval from the Department of Technology, Management & Budget (DTMB). MCACA enters into agreements with the subrecipients prior to any funds being issued for work, and the agreements include all contractual obligations, such as scope of work and payment schedules. The final payment to a subrecipient is withheld until the receipt by MCACA of a complete final report that includes an accounting of all project related expenses as well as other project related outcomes.

MCACA believes that the payment method used was the most efficient way to handle this program involving many grants with most grants in small award amounts and with very little federal funding.

- b. While MCACA did not draw federal funds before making payments to the subrecipients, it agrees that funds were advanced to subrecipients prior to receiving documentation of actual expenditures incurred by the subrecipients.
- c. MCACA agrees that it has not developed a policy for ensuring compliance with the subrecipient monitoring requirement. Although MCACA has not developed a policy, its practice is to monitor grantee Web sites, to use the Web site service "Guidestar," to review press reviews of shows and exhibits, to meet with specific groups (e.g., local

arts agencies), and to also utilize e-mail correspondence and phone calls.

Planned Corrective Action: MCACA will implement corrective action as follows:

- a. and b. Payments to subrecipients will be made in accordance with State policies and federal requirements.
- c. MCACA will develop a policy for ensuring compliance with the subrecipient monitoring compliance requirement.

Anticipated Completion Date: March 31, 2011

Responsible Individual: John Bracey, Executive Director, Michigan Council for Arts and Cultural Affairs

Finding Number: 2511005
Finding Title: Grants to States, *CFDA* 45.310

Management Views: The Library of Michigan partially agrees with part a.(1), agrees with part a.(2) through part a.(4), and does not agree with part b.

- a.(1) The Library of Michigan agrees with the finding that it was unable to locate the signed contract for Michigan Department of Information Technology services.

The Library of Michigan also does not agree with the finding that an external vendor was paid for services not covered in the original contract. The payment of maintenance charges in the contract depended on the completion of contract milestones by the vendor. The contract with the vendor allows for a testing

period, which by definition changes the end date of the contract. On page 30, the contract states, "The Library will have ninety (90) days from the dates of installation to test each development . . . If the Library provides the Contractor with a written claim, the subsequent period for the Library to make additional claims and for the Contractor to cure all claims shall not exceed one hundred and eighty days . . ."

The Library began payment of maintenance charges after contract milestones were achieved in the contracted amount. As this extension was implicit in the approved contract and included no additional cost, the date extension was part of the original, approved contract and is in compliance with allowable cost principles as established in Title 2, Part 225 of the *Code of Federal Regulations*.

- a.(2) The Library of Michigan agrees with this finding that certifications were not completed for all student workers from Services for the Blind and Physically Handicapped. One student that worked was not included in the first biannual certification for federal fiscal year 2007-08 through an oversight in compiling a list of student employees. This issue was noted in the previous single audit, and staff certifications processes were amended to include regular certifications of all appropriate staff.

- a.(3) The Library of Michigan agrees that the consumer price index (CPI) rate was not independently verified when it was reported by the vendor. The Library evaluated the maintenance payments on the terms of the

contract and confirmed that the maintenance charge increases were 5% or less of the yearly maintenance amount.

- a.(4) The Library of Michigan agrees with this finding that the segregation of duties for the submission and approval for 2 payroll transactions was not maintained due to employee scheduling conflicts.
- b. The Library of Michigan does not agree with this finding that costs listed in a.(1) were not in compliance with procurement and suspension and debarment practices for the reason stated in the Library's response to a.(1).

Planned Corrective Action:

- a.(1) The Library of Michigan will ensure maintenance of signed contracts.
- a.(2) The Library of Michigan will require semiannual certification for all staff used as match for the Grants to States Program.
- a.(3) The Library of Michigan will independently verify the accuracy of the CPI increases before processing payments.
- a.(4) The Library of Michigan will follow segregation of duties for payroll submission.

Anticipated Completion Date: June 30, 2011

Responsible Individual: Janet Laverty, Administrative Services Director
Michigan Department of Education

GLOSSARY

Glossary of Acronyms and Terms

ARRA	American Recovery and Reinvestment Act.
<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.
<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 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.
CPI	consumer price index.
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system.
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 fairly presented in all

material respects in conformity with the disclosed basis of accounting.

HAL

Department of History, Arts and Libraries.

HPF

Historic Preservation Fund Grants-In-Aid.

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.
MCACA	Michigan Council for Arts and Cultural Affairs.
MDIT	Michigan Department of Information Technology.
MeL	Michigan eLibrary.
MeLCat	Michigan eLibrary Catalog.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
MISPC	Mackinac Island State Park Commission.
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.
SAT	Save America's Treasures.

SEFA	schedule of expenditures of federal awards.
SHPO	State Historic Preservation Office.
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 with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>

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.

