



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 Treasury

Report Number:
 271-0100-11

October 1, 2008 through September 30, 2010

Released:
 June 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 Treasury'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 significant deficiencies (Findings 1 and 2).

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

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited two programs as major programs and identified known questioned costs of \$1.5 million. The Department of Treasury expended a total of \$3.8 million in federal awards during the two-year period ended September 30, 2010. We issued one unqualified opinion and one adverse opinion. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified material weaknesses in internal control over federal program compliance (Finding 4). We also identified a significant deficiency in internal control over federal program compliance (Finding 3).

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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 3 and 4).

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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 Treasury 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>
84.185A	Byrd Honors Scholarships	Unqualified
84.378A	College Access Challenge Grant Program	Adverse

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

June 22, 2011

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Treasury 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 Treasury'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 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 Treasury'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

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

We have audited the accompanying financial schedules of the Department of Treasury 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 Treasury'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 Treasury for the fiscal years ended September 30, 2010 and September 30, 2009 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 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

June 13, 2011

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

	<u>2010</u>	<u>2009</u>
REVENUES		
Taxes (net of refunds) (Note 2)	\$ 9,484,886	\$ 9,526,300
From federal agencies (Note 1a.)	81,411	789
From local agencies	2,673	2,397
From services	56,029	54,411
From licenses and permits	330	403
Miscellaneous	182,356	204,214
Total revenues	<u>\$ 9,807,686</u>	<u>\$ 9,788,514</u>
OTHER FINANCING SOURCES		
Capital lease acquisitions	\$ 1,224	\$ 470
Transfers from other funds	59,870	55,777
Total other financing sources	<u>\$ 61,094</u>	<u>\$ 56,247</u>
Total revenues and other financing sources	<u>\$ 9,868,780</u>	<u>\$ 9,844,762</u>

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

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

	<u>2010</u>	<u>2009</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
General purpose appropriations	\$ 105,271	\$ 137,525
Balances carried forward	87,994	92,956
Restricted financing sources	2,785,432	2,342,025
Less: Intrafund expenditure reimbursements	<u>(3,705)</u>	<u>(6,236)</u>
 Total	 <u>\$ 2,974,993</u>	 <u>\$ 2,566,270</u>
 DISPOSITION OF AUTHORIZATIONS (Note 3)		
Gross expenditures and transfers out	\$ 2,890,830	\$ 2,466,467
Less: Intrafund expenditure reimbursements	<u>(3,705)</u>	<u>(6,236)</u>
Net expenditures and transfers	<u>\$ 2,887,126</u>	<u>\$ 2,460,231</u>
Balances carried forward:		
Encumbrances	\$ 16,352	\$ 18,524
Restricted revenues - authorized	22,750	26,335
Restricted revenues - not authorized or used	47,120	42,921
Total balances carried forward	<u>\$ 86,222</u>	<u>\$ 87,779</u>
Balances lapsed	<u>\$ 1,645</u>	<u>\$ 18,260</u>
 Total	 <u>\$ 2,974,993</u>	 <u>\$ 2,566,270</u>

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Treasury for the fiscal years ended September 30, 2010 and September 30, 2009. The financial transactions of the Department are accounted for in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

In accordance with Executive Order No. 2010-2, effective May 30, 2010, the Department's reporting entity changed to include programs that were previously the responsibility of the Michigan Higher Education Assistance Authority, a discretely presented component unit of the State of Michigan. These scholarships and grants include the Michigan competitive scholarships, tuition grants, Michigan nursing scholarships, part-time independent student grants, Michigan Work-Study Programs, Children of Veterans Tuition Grant Program, Michigan Educational Opportunity Grant Program, and Robert C. Byrd Honors Scholarship Program. The financial activity for these programs is reflected in the financial schedules as of the beginning of fiscal year 2009-10. This resulted in increased federal revenues of \$79.8 million and increased expenditures of \$80.6 million in fiscal year 2009-10.

The notes accompanying these financial schedules relate directly to the Department of Treasury. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; Treasurer's common cash; deposits and investments; pension benefits; other postemployment benefits; compensated absences; income tax credits and refunds; 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 of Treasury'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 General Fund Revenues and Other Financing Sources

The following table discloses the amount of gross taxes received each year in addition to the amount of refunds distributed (in thousands):

	<u>2010</u>	<u>2009</u>
Gross tax revenue received	\$ 12,481,253	\$ 12,378,873
Less: Refunds distributed	<u>(2,996,366)</u>	<u>(2,852,574)</u>
Tax revenue (net of refunds)	<u>\$ 9,484,886</u>	<u>\$ 9,526,300</u>

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

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

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements used to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used.
- d. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department. Significant intrafund expenditure reimbursements from the Department of Human Services were \$3.0 million and \$2.9 million for the Low-Income Home Energy Assistance Program for fiscal years 2009-10 and 2008-09, respectively, and \$2.7 million in fiscal year 2008-09 for the Michigan Nursing Scholarship Program.

- e. Expenditures and transfers out: This table presents significant expenditures and transfers out for the Department (in thousands):

Expenditure Type	Fiscal Year	
	2009-10	2008-09
Refundable income tax credits	\$1,351,500	\$ 963,500
Revenue sharing payments	\$ 994,196	\$1,040,031
Payroll and related employee benefits	\$ 116,399	\$ 110,991
Convention facility development grant distributions	\$ 72,164	\$ 63,847
Debt service payments	\$ 67,518	\$ 66,199

- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenues - 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 fiscal years 2009-10 and 2008-09 were \$16.9 million and \$20.7 million, respectively, for the Emergency 9-1-1 Fund.
- h. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant restricted revenues - not authorized or used for fiscal years 2009-10 and 2008-09 were \$17.6 million and \$16.6 million, respectively, for convention facility development grant distributions.
- i. 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. The significant lapse in fiscal year 2008-09 was \$15.0 million for the Great Lakes Water Quality Bond. Amounts were appropriated for a bond issue that did not occur.

Note 4 Financial Schedule Presentation

a. Intrafund Expenditure Reimbursements

Certain transactions with discretely presented component units were presented by the Department as intrafund expenditure reimbursements in the *SOMCAFR* for fiscal years 2009-10 and 2008-09. The Department requested and received approval from the Office of Financial Management, Department of Technology, Management & Budget, to present the Department's financial schedules different from the presentation in the *SOMCAFR* for fiscal years 2009-10 and 2008-09.

As a result, revenues from services reported in the schedule of General Fund revenues and other financing sources were increased for the fiscal years ended September 30, 2010 and September 30, 2009 by \$20.9 million and \$21.3 million, respectively. Also, intrafund expenditure reimbursements were decreased in the schedule of sources and disposition of General Fund authorizations for the fiscal years ended September 30, 2010 and September 30, 2009 by \$20.9 million and \$21.3 million, respectively. (Finding 1)

b. Emergency 9-1-1 Fund

The Department requested and received approval from the Office of Financial Management, Department of Technology, Management & Budget, to present the Emergency 9-1-1 Fund (a subfund of the General Fund) financial schedules different from the presentation in the *SOMCAFR* for fiscal year 2008-09. The differences include a decrease in tax revenues of \$1.2 million and related expenditures of \$1.0 million and balances carried forward (restricted revenues - authorized) of \$0.2 million. The transactions should have been recorded in the *SOMCAFR* in fiscal year 2007-08 but were recorded in fiscal year 2008-09.

Note 5 Subsequent Events

a. Short-Term Borrowing

On November 4, 2010, the State issued its \$1.1 billion State of Michigan full faith and credit general obligation notes, fiscal year 2011 Series A,

bearing an interest rate of 2.0%. The notes will mature on September 30, 2011.

b. Tax Restructuring

On May 25, 2011, Act 38, P.A. 2011, Act 39, P.A. 2011, and Act 40, P.A. 2011, were enacted.

Act 38, P.A. 2011, amends the Income Tax Act by eliminating numerous credits, deductions, and exemptions and changing future tax rates. This Act also creates a new Corporate Income Tax that will be levied on businesses organized as traditional corporations under the Internal Revenue Code. Act 38, P.A. 2011, is effective January 1, 2012, with the amendments to the individual income tax rate taking effect on October 1, 2011.

Act 39, P.A. 2011, amends the Michigan Business Tax Act to provide for its eventual repeal and to allow certain taxpayers to continue to claim select credits if they continue to file returns under the Michigan Business Tax Act. Act 39, P.A. 2011, is effective May 25, 2011.

Act 40, P.A. 2011, amends the Multistate Tax Compact to require out-of-State taxpayers to calculate their tax liability similar to that required under the Michigan Business Tax and the new Corporate Income Tax. Act 40, P.A. 2011, is effective May 25, 2011.

SUPPLEMENTAL FINANCIAL SCHEDULE

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

<u>Federal Agency/Program</u>	<u>CFDA *</u> <u>Number</u>	<u>Directly Expended for the</u> <u>Fiscal Year Ended September 30</u>		<u>Total Expended</u> <u>for the</u> <u>Two-Year Period</u>
		<u>2009</u>	<u>2010</u>	
<u>U.S. Department of Transportation</u>				
Direct Program:				
Fuel Tax Evasion - Intergovernmental Enforcement Effort	20.240	\$	\$ 10,000	\$ 10,000
Total U.S. Department of Transportation		\$ 0	\$ 10,000	\$ 10,000
<u>U.S. Department of Education</u>				
Direct Programs:				
Byrd Honors Scholarships (Note 2)	84.185A	\$	\$ 1,364,375	\$ 1,364,375
College Access Challenge Grant Program (Note 3)	84.378A	789,266	1,594,382	2,383,648
Total U.S. Department of Education		\$ 789,266	\$ 2,958,757	\$ 3,748,023
Total Expenditures of Federal Awards		\$ 789,266	\$ 2,968,757	\$ 3,758,023

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

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule presents the federal grant activity of the Department of Treasury 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 amounts presented in, or used in the preparation of, the financial schedules.

Note 2 Byrd Honors Scholarships (CFDA 84.185A)

The Byrd Honors Scholarships Program was transferred from the Michigan Higher Education Assistance Authority to the Department of Treasury for fiscal year 2009-10 when the Governor issued Executive Order No. 2010-2. For fiscal year 2008-09, the Byrd Honors Scholarships Program is reported in the Michigan Finance Authority single audit report, which can be obtained from the Department's Bureau of Bond Finance.

Note 3 College Access Challenge Grant Program (CFDA 84.378A)

Act 164, P.A. 2010, appropriates the College Access Challenge Grant Program in the Michigan Department of Education beginning in fiscal year 2010-11.

Note 4 Federal Revenue and the Schedule of Expenditures of Federal Awards

The Department's federal grant activity is reported on the schedule of expenditures of federal awards.

In fiscal year 2009-10, the Department of Human Services (DHS) provided \$78.3 million of federal Temporary Assistance for Needy Families (TANF) revenue to the Department in accordance with Act 158, P.A. 2010, for certain programs that were transferred under Executive Order No. 2010-2 (see Note 1a. in the Notes to the Financial Schedules). The programs funded with this federal revenue include the Michigan Competitive Scholarship Program, Michigan Tuition Grant Program, Children of Veterans Tuition Grant Program, and Tuition Incentive Program. DHS determined that these scholarships and grants were eligible for the federal TANF Program. The use of these federal

funds requires certain federal regulations and compliance requirements to be met, as disclosed in the *OMB Circular A-133 Compliance Supplement, Catalog of Federal Domestic Assistance**, and *Code of Federal Regulations**. Because the Department has deemed that it serves in a vendor relationship with DHS for this federal Program, DHS is required to ensure compliance with the applicable federal laws and regulations for the use of the federal funds. Therefore, the TANF Program is not presented on the Department's schedule of expenditures of federal awards.

* See glossary at end of report for definition.

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

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

We have audited the financial schedules of the Department of Treasury 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 June 13, 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 certain deficiencies in

internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in Findings 1 and 2, that we consider to be significant deficiencies 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*.

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

AUDITOR GENERAL

June 13, 2011



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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

Mr. Andy Dillon
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Dillon:

Compliance

We have audited the Department of Treasury'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.

As described in Finding 4 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding matching, level of effort, and earmarking and procurement and suspension and debarment that are applicable to its College Access Challenge Grant Program. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Department of Treasury did not comply, in all material respects, with the requirements referred to in the first paragraph that could have a direct and material effect on the College Access Challenge Grant Program. Also, in our opinion, the Department of Treasury complied, in all material respects, with the compliance requirements referred to in the first paragraph that could have a direct and material effect on its other major federal program for the two-year period ended September 30, 2010. The results of our

auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs in Finding 3.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 4 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs in Finding 3 to be a significant deficiency.

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

AUDITOR GENERAL

June 13, 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?	Yes
Significant deficiencies* identified?	Yes

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

Unqualified for the Byrd Honors Scholarships
 Adverse* for the College Access Challenge Program

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
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.185A	Byrd Honors Scholarships
84.378A	College Access Challenge Grant Program

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

Auditee qualified as a low-risk auditee*? No

* See glossary at the end of report for definition.

Section II: Findings Related to the Financial Schedules

FINDING (2711101)

1. Transactions With Discretely Presented Component Units

The Department of Treasury did not record transactions with discretely presented component units in accordance with generally accepted accounting principles and Department of Technology, Management & Budget (DTMB) procedures. As a result, revenues from services reported in the schedule of General Fund revenues and other financing sources were understated for the fiscal years ended September 30, 2010 and September 30, 2009 by \$20.9 million and \$21.3 million, respectively. Also, intrafund expenditure reimbursements were overstated in the schedule of sources and disposition of General Fund authorizations for the fiscal years ended September 30, 2010 and September 30, 2009 by \$20.9 million and \$21.3 million, respectively.

Subsequent to our review, the Department of Treasury received approval from the DTMB Office of Financial Management to present corrected amounts. Therefore, these amounts have been corrected for inclusion in this report.

Section 1800.16 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board*, requires that resource flows between the primary government and its discretely presented component units should be reported as revenues and expenses. The State of Michigan Financial Management Guide (Part II, Chapter 16, Section 800) states that all resource flows between the State and its discretely presented component units are reported as revenues and expenses in both the State's financial statements and the component units' separately issued financial statements.

Department of Treasury personnel provided administrative services to several component units, including the Michigan Education Trust, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, and Michigan State Hospital Finance Authority (these authorities, except the Michigan Education Trust,

* See glossary at end of report for definition.

were combined into the Michigan Finance Authority in fiscal year 2009-10). These administrative services included budgeting, procurement, personnel, and management services. It was the Department of Treasury's practice to record a portion of the receipts from these component units as expenditure credits rather than revenue from services.

RECOMMENDATION

We recommend that the Department of Treasury record transactions with discretely presented component units in accordance with generally accepted accounting principles and DTMB procedures.

FINDING (2711102)

2. Consistency in Use of Single Business Tax (SBT) Historical Data

The Department of Treasury did not have internal control in place to ensure that it consistently applied its methodology related to the use of SBT historical data to estimate Michigan Business Tax (MBT) receivables and related tax revenues. As a result, tax revenue was overstated by \$18.1 million and \$2.8 million in fiscal years 2009-10 and 2008-09, respectively. The Department of Treasury, in conjunction with the DTMB Office of Financial Management, recorded adjusting transactions for fiscal year 2009-10. Therefore, the fiscal year 2009-10 financial schedules presented in this report reflect the correct amounts.

The Department of Treasury decided that it would not recognize a full accrual receivable for the MBT revenue because historical data was not available to calculate a reasonable estimate. In its position paper, the Department of Treasury concluded that SBT and MBT have significant differences and independent MBT estimates would not be measurable until historical data is available. However, in its calculation of the 60-day accrual, the Department of Treasury used the historical SBT collectibility percentages to estimate the MBT receivables and related tax revenues to be assessed.

RECOMMENDATION

We recommend that the Department of Treasury implement internal control to ensure that it consistently applies its methodology related to the use of SBT historical data to estimate MBT receivables and related tax revenues.

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditor to test key controls at a level that would provide sufficient evidence that the established control structure would provide a high probability that material federal program noncompliance would be prevented or detected and corrected. This requires that the auditor set the tolerable exception rate of occurrence at a very low level. During the audit fieldwork, the auditor, in close consultation with the auditee, identifies the key controls that the auditee has established to ensure federal program compliance. In those cases in which the auditor's tests of key controls identify exception rates in excess of the tolerable exception rate of occurrence, the auditor must generally report the observed exception rate in the report finding.

Further, Circular A-133 requires the auditor to report in this section of the audit report known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program and known questioned costs that are less than \$10,000 for a type of compliance requirement for a major program if it is likely that total questioned costs would exceed \$10,000.

As a result of these low required reporting thresholds, the reader may note that, in some cases, the observed exception rates of occurrence and reported known questioned costs appear insignificant in relation to the overall federal expenditures of the auditee. After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.

FINDING (2711103)

3. Byrd Honors Scholarships, CFDA 84.185A

U.S. Department of Education	CFDA 84.185A: Byrd Honors Scholarships
Award Number: P185A090023	Award Period: 07/01/2009 - 06/30/2010
	Known Questioned Costs: \$0

* See glossary at end of report for definition.

The Department of Treasury's internal control over the Byrd Honors Scholarships Program did not ensure compliance with federal laws and regulations regarding reporting. Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Byrd Honors Scholarship awards.

Federal expenditures for the Byrd Honors Scholarships Program totaled \$1.4 million for the one-year period ended September 30, 2010. In fiscal year 2009-10, the Department of Treasury awarded scholarships to 922 eligible students and distributed all of the funds to the institutions of higher education that the students attended.

The Department of Treasury's internal control did not ensure the accuracy of the performance report submitted for the reporting period ended September 30, 2010. As a result, the Department reported inaccurate information on the 2010 annual performance report.

Title 34, Part 654, section 60 of the *Code of Federal Regulations (CFR)* requires the reporting of information deemed necessary by the federal awarding agency. The Department of Treasury is required to submit an annual performance report that highlights expenditures, the number of students (full-time and part-time) receiving a scholarship award, and carry-over funds.

Our review of the 2010 annual performance report disclosed the following reporting errors:

Report Category	Reported Amount	Correct Amount	Difference
Carry-over funds from previous period	\$ 163,892	\$ 0	\$ 163,892
New grant funds awarded to recipients	1,077,333	1,364,375	(287,042)
Total grant funds awarded	\$1,241,225	\$ 1,364,375	\$(123,150)
Total number of recipients	843	922	(79)
Number of full-time students receiving award	814	877	(63)
Number of part-time students receiving award	29	45	(16)
Proposed carry-over funds from this period	\$ 281,667	\$ 0	\$281,667

These reporting errors occurred because the Department of Treasury advanced payments at the end of each fiscal year and then deducted these payments when completing the federal report.

RECOMMENDATION

We recommend that the Department of Treasury improve its internal control over the Byrd Honors Scholarships Program to ensure compliance with federal laws and regulations regarding reporting.

FINDING (2711104)

4. College Access Challenge Grant Program, CFDA 84.378A

U.S. Department of Education	CFDA 84.378A: College Access Challenge Grant Program
Award Number: P378A080022 P378A090022	Award Period: 08/14/2008 - 08/13/2009 08/14/2009 - 08/13/2010
	Known Questioned Costs: \$1,508,979

The Department of Treasury's internal control over the College Access Challenge Grant (CACG) Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance* with federal laws and regulations regarding matching, level of effort, and earmarking and procurement and suspension and debarment. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CACG Program.

We identified known questioned costs of \$1,508,979. Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the CACG Program.

Federal expenditures for the CACG Program totaled \$2.4 million for the two-year period ended September 30, 2010. Expenditures for contractual services were \$2.3 million (96%) of the total program expenditures.

* See glossary at end of report for definition.

Our audit disclosed the following exceptions by compliance area:

a. Matching, Level of Effort, and Earmarking

The Department of Treasury's internal control over the CACG Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking. As a result, we questioned costs totaling \$122,251.

Our review disclosed:

(1) Matching

The Department of Treasury did not comply with federal regulations regarding matching.

The federal statute under the Higher Education Act of 1965, as amended (Title VII, Part E), requires a nonfederal matching contribution of not less than one-third of the costs of project activities and services. This federal statute further states that if a state fails to provide the full nonfederal share required, the grant payment shall be reduced proportionately. The Department of Treasury received a grant of \$2,092,786 in August 2008 and expended \$1,963,998 in fiscal year 2008-09 and fiscal year 2009-10. The Department of Treasury and its contractors also expended matching funds of \$798,622. Based on the total amount expended by the Department of Treasury and its contractors of \$2,762,620, we calculated the required match to be \$920,873. Therefore, the CACG Program did not meet the required match by \$122,251, and we questioned these costs.

(2) Level of Effort (Maintenance of Effort)

The Department of Treasury did not comply with federal regulations regarding level of effort. As a result, the Department may be subject to future federal sanctions.

Section 137 of the Higher Education Opportunity Act requires that, beginning after July 1, 2008, a state shall provide to public institutions of higher education an amount which is equal to or greater than the average amount provided to such institutions of higher education during the five most recent preceding academic years for which satisfactory data is

available and for private institutions of higher education an amount which is equal to or greater than the average amount provided for student financial aid for paying costs associated with postsecondary education during the five most recent preceding academic years for which satisfactory data is available.

CACG Program personnel calculated the State's level of effort using amounts appropriated from fiscal year 2003-04 through fiscal year 2009-10 for public universities, community colleges and grants, and tuition grants (for private institutions). A five-year average was calculated and compared to the current appropriations for fiscal year 2008-09 and fiscal year 2009-10. In the calculation, CACG staff combined the appropriations for public institutions and private institutions and used the total figure to make comparisons. Because the combined total was used, the Department of Treasury believed that the State was in compliance with the CACG Program's level of effort requirement. However, based on our review, the Program did not meet the level of effort prescribed in the federal regulations because of the following errors in the calculation:

- (a) In computing the five-year average, the CACG Program used appropriated amounts rather than expenditures. The federal regulations require that the state shall provide to public institutions of higher education an amount which is equal to or greater than the average amount provided to such institutions of higher education during the five most recent preceding academic years for which satisfactory data is available. Because the Department of Treasury did not expend an amount equal to its General Fund appropriations, its computed five-year average was not in accordance with federal regulations.
- (b) The CACG Program calculated one five-year average that included both public and private institutions and compared this to the total current amount provided for both public and private institutions. The federal regulations require that a level-of-effort calculation be completed for both public institutions and private institutions. Therefore, to combine these is not in accordance with federal regulations.

- (c) The CACG Program calculated the amounts for private institutions by using the amounts appropriated for the Tuition Grants Program. However, since fiscal year 2007-08, the Tuition Grants Program has been federally funded by a transfer of federal funds from the Department of Human Services under the Temporary Assistance for Needy Families (TANF) Program. Because these are federal funds, they cannot be considered in the level-of-effort analysis.

We recalculated the level of effort separately for public and private institutions, using expenditures during the five preceding years and excluding the TANF-funded Tuition Grants Program. We determined that the State did meet the level of effort required for public institutions for both fiscal year 2008-09 and fiscal year 2009-10; however, it did not meet the required level of effort for private institutions by \$43,068,467 and \$34,277,152 in fiscal year 2008-09 and fiscal year 2009-10, respectively. We did not calculate and report questioned costs for the noncompliance with the level-of-effort compliance requirement. Federal regulations state that the awarding agency may withhold amounts which would otherwise be available from a state that did not receive a waiver until significant efforts have been made to correct the violation. Therefore, any penalty will be determined by the federal awarding agency when it makes subsequent award decisions.

b. Procurement and Suspension and Debarment

The Department of Treasury's internal control over the CACG Program did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment. As a result, we questioned costs totaling \$1,386,728.

Federal regulation 34 *CFR* 80.36 requires that states procure services for federal grants using the same policies and procedures used to procure nonfederally funded services. DTMB requires its Purchasing Operations to process purchases in excess of \$25,000.

Our review of purchases for the CACG Program disclosed:

- (1) The Department of Treasury did not follow DTMB established procedures for purchases in excess of \$25,000.

CACG Program personnel informed us that these procurements were considered sole source and, therefore, the Department of Treasury did not submit them to DTMB for processing. Act 431, P.A. 1984, as amended, prohibits no-bid or sole-source contracts except in certain emergency situations. The CACG Program's purchases did not meet the specific circumstances noted in the Act. In addition, the CACG Program could not provide documentation substantiating that attempts were made to identify potential vendors, such as requests for proposal or invitations to bid.

We reviewed 10 separate purchases, each in excess of \$25,000, totaling \$3,232,621. Our review disclosed that 9 purchases totaling \$2,080,621 were not purchased using the procedures outlined by DTMB. We questioned the total costs of \$1,386,728 paid for these services for fiscal years 2008-09 and 2009-10.

- (2) The Department of Treasury's internal control did not ensure that its CACG Program purchases were to vendors who were not suspended or debarred.

Federal regulation 34 *CFR* 80.35 prohibits the Department of Treasury from contracting with or making subawards to any party that is suspended or debarred. The Department did not have procedures to verify that vendors were not suspended or debarred.

We reviewed the federal Excluded Parties List System and verified that none of the vendors in our sample were suspended or debarred during the respective fiscal years. As a result, we have not reported any questioned costs.

RECOMMENDATION

We recommend that the Department of Treasury improve its internal control over the CACG Program to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking and procurement and suspension and debarment.

OTHER SCHEDULES

DEPARTMENT OF TREASURY
Summary Schedule of Prior Audit Findings
As of June 13, 2011

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

The Department of Treasury was last required to have a single audit* for the fiscal years ended September 30, 2002 and September 30, 2001. There were no findings related to the financial schedules in the prior single audit that were still applicable during this audit period.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

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

* See glossary at end of report for definition.

DEPARTMENT OF TREASURY

Corrective Action Plan

As of June 8, 2011

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 2711101
Finding Title: Transactions With Discretely Presented Component Units

Management Views: The Department of Treasury agrees with the finding.

Planned Corrective Action: Necessary corrections have been made to the financial schedules presented in this audit report. The Department of Treasury will record these transactions with discretely presented component units in accordance with generally accepted accounting principles.

Anticipated Completion Date: Completed April 30, 2011

Responsible Individual: Suzie Nichols, Administrator, Finance and Accounting Division.

Finding Number: 2711102
Finding Title: Consistency in Use of Single Business Tax (SBT) Historical Data

Management Views: The Department of Treasury agrees that the methodologies used for full accrual and the 60-day accrual were not consistent.

The Department of Treasury believes that there should be a difference between the application of the full accrual and 60-day accrual methodologies for

calculating Michigan Business Tax (MBT) receivables based on historic SBT data. The approved methodologies did not state this difference.

Planned Corrective Action: The methodology for MBT will be changed to clearly differentiate between the two accrual methodologies.

Anticipated Completion Date: September 30, 2011

Responsible Individual: Suzie Nichols, Administrator, Finance and Accounting Division.

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 2711103

Finding Title: Byrd Honors Scholarships, *CFDA* 84.185A

Management Views: The Department of Treasury agrees with the finding.

Planned Corrective Action: Necessary corrections have been made to the payment process that led to the errors on the report. The reporting for the next cycle will include carry-over funds.

Anticipated Completion Date: September 30, 2011

Responsible Individual: Anne Wohlfert, Director, Office of Scholarships and Grants

Finding Number: 2711104

Finding Title: College Access Challenge Grant Program, *CFDA* 84.378A

Management Views:

Part a.(1): Matching

The Department of Treasury agrees that for award number P378A080022 of the College Access Challenge Grant (CACG) Program (August 14, 2008 through August 13, 2009), the committed nonfederal match of \$1,046,393 was not met using existing vendor contracts. In January 2009, the Department of Treasury, with U.S. Department of Education approval, amended the original CACG scope and budgetary line items. This had the effect of reducing one contractor's nonfederal match from \$1,000,000 to \$500,000.

With the change in scope, the Department of Treasury, along with the Michigan College Access Network, sought additional sources of nonfederal match to fulfill its statutory requirement. For the subsequent award (P378A090022), a documented nonfederal match of \$1,015,000 was secured in fiscal year 2010-11 from a foundation of the CACG in addition to \$500,000 from subgrantees for the purposes of establishing local college access networks throughout Michigan.

For award number P378A080022, the Department of Treasury was allotted \$2,092,786 in CACG funds and, for award number P378A090022, the allotment was \$2,202,422. The total nonfederal match for these two awards

is \$2,147,604. The Department of Treasury has documented and secured a total of \$2,313,622 for these two awards to meet its commitment in providing nonfederal match contributions of not less than one-third of total project costs and services.

Part a.(2): Level of Effort (Maintenance of Effort)
The Department of Treasury agrees that for award number P378A080022 and award number P378A090022 of the CACG Program (August 14, 2008 through August 13, 2009 and August 14, 2009 through August 13, 2010), the level of effort requirement for private institutions was not met.

Because of legislative actions, State funding for private institutions was replaced with federal Temporary Assistance for Needy Families (TANF) funding at the end of each fiscal year beginning with fiscal year 2007-08. In subsequent years, State dollars were appropriated and awarded to Michigan's private institutions and subsequently replaced with TANF funds, reducing the State's level of effort.

Although federal regulations do not allow for a calculation in total, the Department of Treasury determined that, in total, for award number P378A080022, Michigan provided \$1,768,447,830 in State funds to public colleges and universities and financial

aid to private institutions. The average total amount from 2004 through 2008 was \$1,774,319,085 and the level of effort, in total, was missed by 0.33%. For award number P378A090022, Michigan provided \$1,760,208,035 in State funds to public colleges and universities and financial aid to private institutions. The average total amount from 2005 through 2009 was \$1,785,037,284 and the level of effort, in total, was missed by 1.39%.

Part b.(1): Procurement

The Department of Treasury agrees that contracts with vendors in excess of \$25,000 for the CACG Program were not processed through the Department of Technology, Management & Budget (DTMB).

The Department of Treasury received verbal guidance from DTMB that contracts with vendors in excess of \$25,000 that are named in federal grants are not required to follow the bid requirements in Act 431, P.A. 1984, as amended. Prior to the issuance of contracts by the Department of Treasury, approval of programmatic and budgetary changes to the Department of Treasury's original CACG application was received from the U.S. Department of Education.

	Part b.(2):	Suspension and Debarment The Department of Treasury agrees that no written verification was kept to confirm that this process occurred prior to issuing a contract to each vendor.
Planned Corrective Action:	Part a.(1):	The Department of Treasury has obtained the required nonfederal match for the CACG Program by obtaining additional matching funds for award number P378A090022 to make up for the shortage of matching funds for award number P378A080022.
	Part a.(2):	The Department of Treasury will start the process to seek a waiver from the U.S. Department of Education on the level of effort requirement for the CACG Program for both awards.
	Part b.:	The CACG Program was transferred to the Michigan Department of Education, effective October 1, 2010. The Department of Treasury will share this report with the CACG Program personnel at the Michigan Department of Education.
Anticipated Completion Date:	Part a.(1):	Completed
	Part a.(2):	August 13, 2011
	Part b.:	July 29, 2011

Responsible Individual:

Philip Trapp, Deputy Director of Administration and Outreach, Student Financial Services Bureau, Department of Treasury

GLOSSARY

Glossary of Acronyms and Terms

adverse opinion	An auditor's opinion in which the auditor states that the audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
CACG	College Access Challenge Grant.
<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.
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.
DHS	Department of Human Services.
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.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
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.

MBT

Michigan Business Tax.

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.

SBT

Single Business Tax.

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 <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
TANF	Temporary Assistance for Needy Families.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ol style="list-style-type: none"> <li data-bbox="565 1520 1446 1688">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 <li data-bbox="565 1751 1446 1824">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.

