



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN JUSTICE TRAINING FUND

MICHIGAN COMMISSION ON LAW ENFORCEMENT STANDARDS
MICHIGAN DEPARTMENT OF STATE POLICE

Fiscal Years Ended September 30, 2013 and September 30, 2012



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

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

*Michigan Justice Training Fund
Michigan Commission on Law Enforcement Standards
Michigan Department of State Police
Fiscal Years Ended September 30, 2013 and
September 30, 2012*

**Report Number:
551-0101-14**

**Released:
June 2014**

A financial audit determines if the financial schedules are fairly presented, considers internal control over financial reporting, and determines compliance with requirements material to the financial schedules. This financial audit of the Michigan Justice Training Fund (MJTF) was required by Section 18.429 of the Michigan Compiled Laws.

Financial Schedules:

Auditor's Report Issued

We have audited the financial schedules of MJTF, Michigan Commission on Law Enforcement Standards (MCOLES), Michigan Department of State Police, for the fiscal years ended September 30, 2013 and September 30, 2012 and the related notes to the financial schedules. We issued an unmodified opinion on MJTF's financial schedules.

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Internal Control Over Financial Reporting

We considered MCOLES's internal control over financial reporting (internal control) for the purpose of expressing our opinion on MJTF's financial schedules. Our consideration of internal control was not designed to identify all deficiencies that might be material weaknesses or significant deficiencies. However, we identified a deficiency in internal control that we consider to be a material weakness (Finding 1).

Unobligated Funds

MCOLES did not have a control to ensure that it identified all unobligated MJTF funds eligible for competitive grant awards on an annual basis. As a result, MCOLES did not obligate approximately \$1.0 million of MJTF restricted revenues - not authorized or used balances during either fiscal year 2011-12 or fiscal year 2012-13 (Finding 1).

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Compliance and Other Matters

We performed tests of MCOLES's 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 MJTF's financial schedule amounts. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* (Finding 1).

Unobligated Funds

MCOLES did not have a control to ensure that it identified all unobligated MJTF funds eligible for competitive grant awards on an annual basis. As a result, MCOLES did not obligate approximately \$1.0 million of MJTF restricted revenues - not authorized or used balances during either fiscal year 2011-12 or fiscal year 2012-13 (Finding 1).

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Agency Response:

Our audit report contains 1 finding and 1 corresponding recommendation. MCOLES's preliminary response indicates that it agrees with the recommendation and that it will comply.

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Description of Reporting Entity:

MJTF is a restricted subfund within the State of Michigan's General Fund that receives a percentage of court fines, fees, and assessments collected by the courts as outlined in Section 600.181 of the *Michigan Compiled Laws*. MCOLES distributes the funds from MJTF to law enforcement agencies for in-service criminal justice training of their law enforcement officers on a per capita basis and to State and local agencies providing in-service criminal justice training programs for employees of criminal justice entities on a competitive grant basis.

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



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

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

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



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

June 6, 2014

Sheriff Jerry Clayton, Acting Chair
Michigan Commission on Law Enforcement Standards
Michigan Department of State Police
106 West Allegan Street, Suite 600
Lansing, Michigan
and
Colonel Kriste Kibbey Etue, Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Dear Sheriff Clayton and Colonel Etue:

This is our report on the financial audit of the Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards, Michigan Department of State Police, for the fiscal years ended September 30, 2013 and September 30, 2012. This financial audit was required by Section 18.429 of the *Michigan Compiled Laws*.

This report contains our report summary, our independent auditor's report on the financial schedules and other reporting required by *Government Auditing Standards*, and the Michigan Justice Training Fund's financial schedules and supplemental financial schedule. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters; our finding, recommendation, and agency preliminary response; and a glossary of abbreviations and terms.

The agency preliminary response was taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendation 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.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
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
and Other Reporting Required by *Government Auditing Standards*

Sheriff Jerry Clayton, Acting Chair
Michigan Commission on Law Enforcement Standards
Michigan Department of State Police
106 West Allegan Street, Suite 600
Lansing, Michigan
and
Colonel Kriste Kibbey Etue, Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Dear Sheriff Clayton and Colonel Etue:

Report on the Financial Schedules

We have audited the accompanying financial schedules of the Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards, Michigan Department of State Police, for the fiscal years ended September 30, 2013 and September 30, 2012 and the related notes to the financial schedules as listed in the table of contents.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Michigan Justice Training Fund for the fiscal years ended September 30, 2013 and September 30, 2012 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial schedules present only the revenues and the sources and disposition of authorizations for the Michigan Justice Training Fund's accounts and do not purport to, and do not, constitute a complete financial presentation of either the Michigan Commission on Law Enforcement Standards or the State's General Fund as of September 30, 2013 and September 30, 2012 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter*Other Information*

Our audit was conducted for the purpose of forming an opinion on the Michigan Justice Training Fund's financial schedules. The supplemental financial schedule, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the Michigan Justice Training Fund's financial schedules.

The supplemental financial schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial schedules. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial schedules or to the financial schedules themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental financial schedule is fairly stated, in all material respects, in relation to the financial schedules as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014 on our consideration of the Michigan Commission on Law Enforcement Standards' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Commission on Law Enforcement Standards' internal control over financial reporting and compliance.

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
May 27, 2014

MICHIGAN JUSTICE TRAINING FUND
 Michigan Commission on Law Enforcement Standards
 Michigan Department of State Police
 Schedule of Revenues
Fiscal Years Ended September 30

	2013	2012
REVENUES		
Miscellaneous revenues:		
Court fines, fees, and assessments (Note 2)	\$ 5,356,106	\$ 5,251,877
Other miscellaneous revenue	7,903	49,834
Total revenues	\$ 5,364,009	\$ 5,301,711

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

MICHIGAN JUSTICE TRAINING FUND
Michigan Commission on Law Enforcement Standards
Michigan Department of State Police
Schedule of Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	2013	2012
SOURCES OF AUTHORIZATIONS (Note 3)		
Balances carried forward	\$ 3,854,666	\$ 4,467,566
Restricted financing sources	5,364,009	5,301,711
	\$ 9,218,675	\$ 9,769,277
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Expenditures:		
Law enforcement distributions	\$ 3,184,376	\$ 3,208,439
Competitive grant expenditures	1,381,745	1,549,244
Administrative expenditures	1,436,004	1,156,928
Total expenditures	\$ 6,002,125	\$ 5,914,611
Balances carried forward:		
Restricted revenues - not authorized or used (Note 4)	\$ 3,216,550	\$ 3,854,666
Total balances carried forward	\$ 3,216,550	\$ 3,854,666
	\$ 9,218,675	\$ 9,769,277

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

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan Justice Training Fund* (MJTF), Michigan Commission on Law Enforcement Standards (MCOLES), Michigan Department of State Police (MSP), for the fiscal years ended September 30, 2013 and September 30, 2012. The financial transactions of MJTF are accounted for in the State's General Fund as a restricted subfund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for MJTF's accounts.

* See glossary at end of report for definition.

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

Note 2 Court Fines, Fees, and Assessments

MJTF receives a percentage distribution from the Justice System Fund, based on fines, fees, and assessments collected by Michigan courts, as outlined in Section 600.181 of the *Michigan Compiled Laws*.

Note 3 Schedule of Sources and Disposition of Authorizations

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

- a. 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. Statute allows that any amounts received in excess of the appropriation are, at year-end, carried forward to the next fiscal year as restricted revenues - not authorized or used.
- b. Expenditures: Section 18.423 of the *Michigan Compiled Laws* provides for distribution of MJTF funds. Semiannually, MCOLES distributes 60% of MJTF revenues, plus amounts returned from prior year distributions, to law enforcement agencies for in-service criminal justice training of their law enforcement officers on a per capita basis. Also, annually, MCOLES calculates competitive grant* awards for the remaining MJTF revenues, less administrative costs, plus amounts recovered from disallowed prior year competitive grant award expenditures and relinquished prior year competitive grant award obligations. MCOLES distributes competitive grant awards on a reimbursement basis to State and local agencies providing in-service criminal justice training programs for employees of criminal justice entities*. MSP and the other State agencies record

* See glossary at end of report for definition.

revenues received from MJTF and related expenditures in their department General Fund accounts.

- c. 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. These amounts include unobligated current year revenue, undistributed competitive grant award obligations, amounts recovered from disallowed prior year competitive grant award expenditures, relinquished prior year competitive grant award obligations, and other unobligated funds (see Note 4).

Note 4 Unobligated Funds

Section 18.423(b) of the *Michigan Compiled Laws* requires all MJTF balances, after the annual law enforcement distribution* for training of law enforcement personnel and administrative expenses, to be awarded to eligible entities through a competitive grant process after considering the quality and cost effectiveness of the training programs.

MCOLES annually calculated competitive grant awards based on MJTF revenue less the required distribution to law enforcement agencies and administrative costs. MCOLES did not identify that the restricted revenues - not authorized or used balance included approximately \$1.0 million of prior years' unobligated funds. MCOLES will award these unobligated funds through the competitive grant process during fiscal year 2014-15.

* See glossary at end of report for definition.

SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN JUSTICE TRAINING FUND
 Michigan Commission on Law Enforcement Standards
 Michigan Department of State Police
 Schedule of Expenditures
Fiscal Years Ended September 30

	2013	2012
EXPENDITURES		
Law enforcement distributions	\$ 3,184,376	\$ 3,208,439
Competitive grant expenditures	\$ 1,381,745	\$ 1,549,244
Administrative expenditures:		
Salaries, wages, and fringe benefits	\$ 1,083,785	\$ 935,979
Travel related	38,484	25,849
Settlements	25,000	
Mailing and postage	4,150	4,325
Other purchased services	220,580	112,828
Other miscellaneous and contractual services	6,625	15,929
Equipment purchases and lease/rental payments	5,668	6,928
Rent and building occupancy	39,700	39,400
Supplies	12,012	15,689
Total administrative expenditures	\$ 1,436,004	\$ 1,156,928
Total expenditures	\$ 6,002,125	\$ 5,914,611

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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

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

Sheriff Jerry Clayton, Acting Chair
Michigan Commission on Law Enforcement Standards
Michigan Department of State Police
106 West Allegan Street, Suite 600
Lansing, Michigan
and
Colonel Kriste Kibbey Etue, Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Dear Sheriff Clayton and Colonel Etue:

We have audited, in accordance with the 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, the financial schedules of the Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards, Michigan Department of State Police, for the fiscal years ended September 30, 2013 and September 30, 2012 and the related notes to the financial schedules and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Michigan Commission on Law Enforcement Standards' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Michigan Commission on Law Enforcement Standards' internal control. Accordingly, we do not express an opinion on the effectiveness of the Michigan Commission on Law Enforcement Standards' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the body of our report, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in Finding 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Justice Training Fund's financial schedules are free from material misstatement, we performed tests of the Michigan Commission on Law Enforcement Standards' 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in Finding 1.

Michigan Commission on Law Enforcement Standards' Response to Finding

The Michigan Commission on Law Enforcement Standards' preliminary response to the finding identified in our audit is included in the body of our report. The Michigan Commission on Law Enforcement Standards' response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Thomas H. McTavish, C.P.A.
Auditor General
May 27, 2014

FINDING, RECOMMENDATION,
AND AGENCY PRELIMINARY RESPONSE

FINDING

1. Unobligated Funds

The Michigan Commission on Law Enforcement Standards (MCOLES) did not have a control to ensure that it identified all unobligated Michigan Justice Training Fund (MJTF) funds eligible for competitive grant awards on an annual basis. As a result, MCOLES did not obligate approximately \$1.0 million of MJTF restricted revenues - not authorized or used balances during either fiscal year 2011-12 or fiscal year 2012-13.

Section 18.423(b) of the *Michigan Compiled Laws* requires that MCOLES annually distribute through a competitive grant process the balance of MJTF funds after making distributions to law enforcement agencies and for administrative expenditures.

MCOLES calculated competitive grant awards based on the MJTF revenues remaining after the required 60% distribution to law enforcement agencies and an amount for administrative costs. However, MCOLES should have calculated competitive grant awards based on total unobligated MJTF funds. MCOLES did not realize that a portion of MJTF revenues from prior years was not obligated.

RECOMMENDATION

We recommend that MCOLES implement a control to ensure that it identifies all unobligated MJTF funds eligible for competitive grant awards on an annual basis.

AGENCY PRELIMINARY RESPONSE

MCOLES agrees with the recommendation. MCOLES indicated that it will implement an additional internal control to ensure that prior year unobligated MJTF funds eligible for competitive grant awards are identified. MCOLES also indicated that, during the fiscal year 2014-15 competitive grant process, MCOLES will award the old balance of unobligated funds carried forward by MCOLES pursuant to Section 18.425(2) of the *Michigan Compiled Laws*.

GLOSSARY

Glossary of Abbreviations and Terms

competitive grants	The distribution of 40% of MJTF funds, less administrative costs, to State and local agencies providing in-service criminal justice training programs based on a review of submitted applications.
criminal justice entities	The entities involved in the criminal justice process, including law enforcement agencies, prosecutors, criminal defense counsel, courts, and correctional entities.
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.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
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.
law enforcement distribution	The distribution of 60% of MJTF funds to law enforcement agencies, made on a per capita basis, for the direct costs of in-service criminal justice training of certified law enforcement officers.

material misstatement	A misstatement in the financial schedules that causes the schedules to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
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 will not be prevented, or detected and corrected, on a timely basis.
MCOLES	Michigan Commission on Law Enforcement Standards.
Michigan Justice Training Fund (MJTF)	A fund created within the State's General Fund used to provide funds for training law enforcement officials and others in the criminal justice community.
MSP	Michigan Department of State Police.
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.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the financial schedules are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

