

Directory

Thomas H. McTavish, C.P.A. Auditor General
James S. Neubecker, C.P.A. Executive Deputy Auditor General
Michael J. Mayhew, C.P.A. Deputy Auditor General for Audits
Linda L. Hagan, C.P.A. Director of Administration
George L. Naylor, C.P.A., C.I.S.A. Chief Information Officer
Jon A. Wise, C.P.A. Director of Professional Practice
Robert T. Ortwein, L.P.C. State Relations Officer

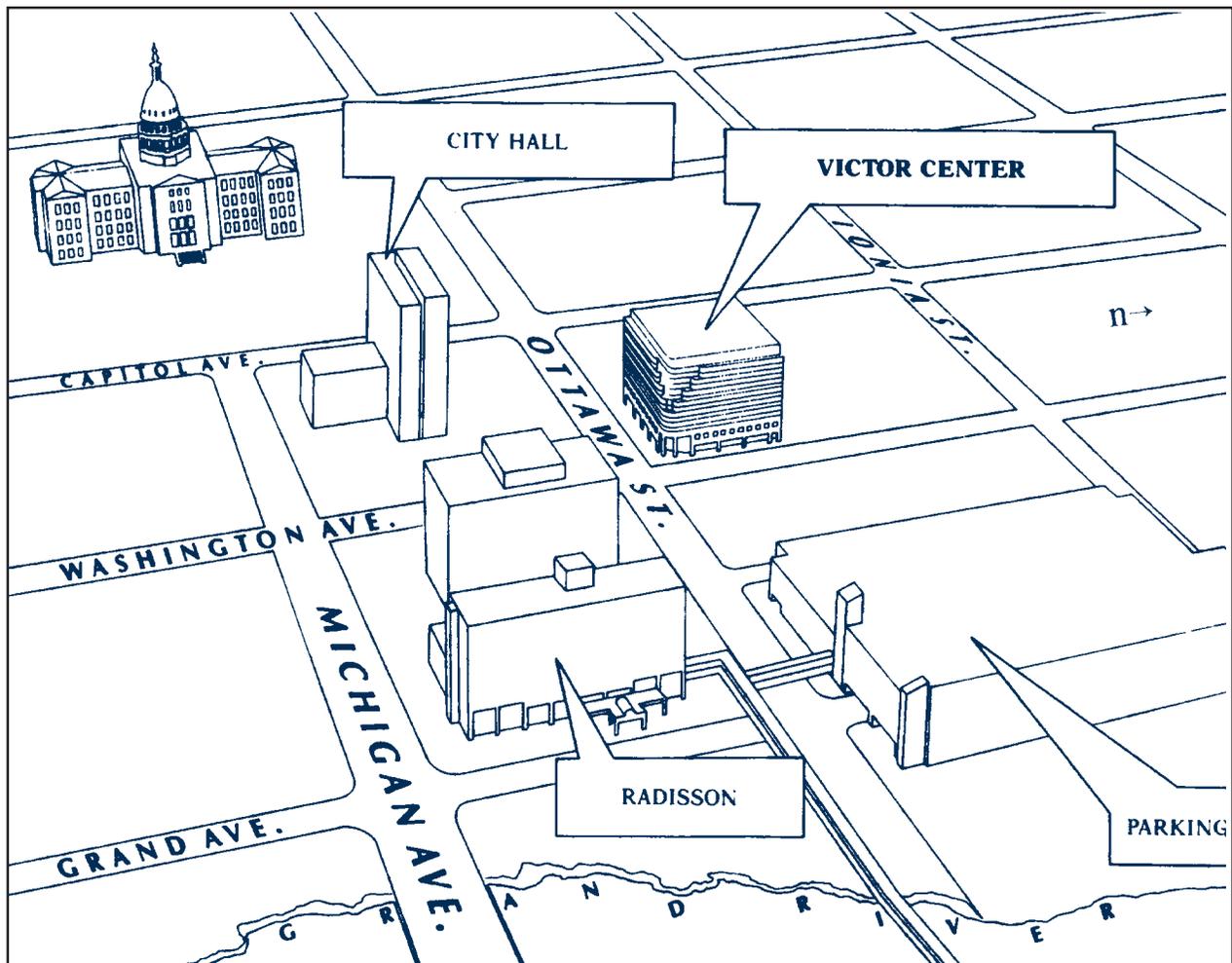
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Office of the Auditor General
Victor Center, Sixth Floor
201 N. Washington Square
Lansing, Michigan 48913

Where We Are Located





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

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

September 30, 2000

The Honorable John M. Engler, Governor of Michigan
The Honorable Dan L. DeGrow, Senate Majority Leader
The Honorable Charles R. Perricone, Speaker of the House
The Honorable John D. Cherry, Jr., Senate Minority Leader
The Honorable Michael J. Hanley, House Minority Leader
and
Members of the 90th Legislature

Ladies and Gentlemen:

This annual report on the operations of the Michigan Office of the Auditor General covers the fiscal year ended September 30, 2000 and is submitted in accordance with Article 4, Section 53 of the State Constitution.

The Office of the Auditor General has the responsibility, as stated in Article 4, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate. To fulfill our requirements and to continually meet our customer needs, we are committed to improving the quality of our audit services and reports and communicating our results to all of the branches of State government, as well as to the citizens of Michigan.

In conformance with the State Constitution and the *Michigan Compiled Laws*, we have established our mission to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. We serve the public interest by providing members of the Legislature and other policymakers with accurate information, unbiased analyses, and objective recommendations on how to best use scarce public resources. We fulfill our mission by adhering to the professional standards and the principles of integrity, objectivity, independence, and due care and by conscientiously carrying out our audit responsibilities.

To help in fulfilling our audit mission and responsibilities, we have focused our efforts on maximizing the quality of our services and improving communication and strengthening our professional relationship with the Legislature, the agencies that we audit, and the citizens of the State of Michigan. This focus has resulted in a continuous quality improvement process within our office consisting of a commitment to enhance the quality of our services, the use of valid measurements to track our programs, and the use of appropriate teams to facilitate improvements and form ongoing partnerships to promote quality in service delivery.

As the State increases its use of information technology to manage and control its programs and resources, we also continue to keep pace with the latest information technology. Each of our professional staff is provided with a computer and analytical

software and receives training on the latest technological advances which allow us to increase both the effectiveness and the efficiency of staff. For example, during this fiscal year, we upgraded our electronic working paper software package, word processing and spreadsheet software, and network software. This helped us ensure compatibility with other agencies and provided us with new software features to promote an efficient work environment. We also installed network software that permits us to automatically upgrade the software on all our notebook and desktop computers via our network.

In addition, we enhanced our Internet web site to include complete audit reports, a search function, and a "list-serve" function. This has resulted in a significant increase in the number of visitor sessions per month. Currently, our Internet web site has approximately 3,600 visitor sessions per month. Visitors to our web site now have the ability to search for specific audit reports and then download the audit reports. Visitors can also sign up on our "list-serve" to automatically receive a copy of the executive digest of each newly released audit report via email.

The core strength of our office continues to be the quality of our staff. There is strong competition from the private sector for new auditors, as well as a strong demand for trained professionals throughout State government. We continue to use innovative strategies to employ and retain highly motivated, skilled, and dedicated staff. The Office of the Auditor General is committed to providing the Legislature and other interested parties with accurate and reliable information, and the key factors in achieving this commitment are the competency and professionalism of our staff.

To measure the quality of our work and our adherence to required professional standards and accepted operational procedures, our office recently underwent a peer review conducted by a team consisting of audit professionals from various audit offices of other states. Such reviews are required by professional standards to be conducted every three years, at a minimum. The team used guidelines adopted by the National State Auditors Association. Once again, I am pleased to report that the results were very positive. We received an unqualified opinion on our system of quality control in effect for audits issued during the period October 1, 1999 through September 30, 2000. This opinion represents the highest level of assurance that can result from such a review. The report letter, dated October 3, 2000, is included on page v.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish". The signature is fluid and cursive, with a large, sweeping flourish at the end.

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



National State Auditors Association

October 3, 2000

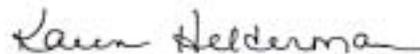
Mr. Thomas H. McTavish, C.P.A.
Auditor General
Office of the Auditor General
201 N. Washington Square
Lansing, MI 48913

Dear Mr. McTavish:

We have reviewed the Michigan Office of the Auditor General's system of quality control. The purpose of our review was to obtain reasonable assurance of the Office's compliance with government auditing standards. This review included audit reports issued from October 1, 1999 through September 30, 2000. We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the Office's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the Office's organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

In our opinion, Michigan Office of the Auditor General's system of quality control for audits issued from October 1, 1999 through September 30, 2000 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.



Karen Helderman, CPA CISA
Team Leader
National State Auditors Association
External Quality Control Review Team



Norman McLeod, CPA
Concurring Reviewer
National State Auditors Association
External Quality Control Review Team

The Office of the Auditor General, established by the State Constitution within the legislative branch of State government, is responsible for conducting financial and performance audits of State government operations. The resulting audit reports provide a continuing flow of information to assist the Legislature in its oversight of State government; to provide citizens with a measure of accountability; and to assist State departments and agencies in improving the financial management and the effectiveness, efficiency, and economy of the activities and programs approved by the Legislature.

Organization

The Office of the Auditor General is organizationally divided into four areas of responsibility. The largest area, the Bureau of Audit Operations, is responsible for planning and conducting audits and reporting audit results. The three other areas, the Office of Professional Practice, the Office of Information Technology, and the Office of Administration, provide support services.

Within these four organizational areas, continuous quality improvement initiatives are underway. The Office of the Auditor General is formalizing feedback channels with our customers, including all branches of government and the public; establishing goals for improvements; developing and monitoring relevant quality measures; and implementing improvements in our processes and products.

Audit Activities

During fiscal year 1999-2000, the Office of the Auditor General completed 80 audits and contracted for 21 additional audits. Our audit reports contained 433 recommendations to improve State government financial management and operations. In addition, in accordance with professional standards, we orally communicated many other recommendations of a lesser nature to State managers and administrators during our audits. Conservatively, we estimate the one-year positive impact accruing to the State from first time findings and recommendations in our audit reports completed in fiscal year 1999-2000 to be approximately \$68 million and the discounted expected future impact for the next four years to be close to \$213 million.

Significant Findings

Although the number and magnitude of the findings varied considerably from audit to audit, several audit reports contained findings with significant impact on government operations.

SOMCAFR Audit

Our audit of the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for the fiscal year ended September 30, 1999, which was conducted simultaneously with the Statewide year-end closing process, included findings which resulted in \$428 million of adjustments to the financial statements and schedules in that report. The most significant adjustments included:

- The Office of Financial Management (OFM) had not recognized the proceeds from the tobacco settlement in the proper fiscal year. Therefore, OFM understated receivables by \$343 million, revenue by \$107 million, and deferred revenue by \$236 million related to the proceeds from the settlement.

-
- OFM could not provide support for entries recorded for completed construction projects; therefore, investment in fixed assets was understated by \$19 million.
 - The Department of Management and Budget misclassified expenditures by function of \$13.4 million related to year 2000 preparation.
 - The Department of Education had not recorded certain liabilities in the proper fiscal year, thereby understating accounts payable and expenditures by \$7 million in the School Aid Fund.
 - OFM had not developed a complete estimation methodology for compensated absences resulting in an understatement of long-term liabilities of \$6.8 million.

Other Financial and Financial Related Audits

During the fiscal year, we also completed 13 Single Audits, 9 financial audits, and 4 financial related audits. The following are highlights from some of these audits:

- The Department of Education did not perform required oversight and monitoring of intermediate school districts participating in the Special Education - Grants for Infants and Families With Disabilities Program.
- The Michigan Department of Transportation's (MDOT's) appropriations acts provided for increases in appropriations based on increases in revenue. We noted that MDOT based its requests for increased appropriations on shortages in spending authority rather than increases in revenue collections. Consequently, MDOT had available spending authority of \$103 million in fiscal year 1996-97 and \$49 million in fiscal year 1997-98 in excess of revenue received.
- The Department of Community Health (DCH) had not established effective control procedures to ensure timely identification and removal of deceased recipients from Medicaid enrollment. We noted 73 recipients coded as active on the Medicaid Management Information System as of August 1998 who had died prior to 1997. Twenty-four of the 73 deceased recipients were enrolled in managed care plans that paid providers a recurring negotiated payment per recipient rather than a payment per service provided. As a result, DCH paid \$245,000 in Medicaid benefits for these recipients subsequent to their deaths.

Performance Audits

During this fiscal year, we used approximately 58% of our audit effort for performance audits. The following are highlights of findings that, if corrected, would improve the effectiveness, efficiency, and economy of State government and university operations:

- In our audit of the Bureau of Health Care Services, Department of Corrections, the Bureau had not developed mechanisms to fully assess the effectiveness and efficiency of new health care initiatives. As a result, the Bureau could not be assured that selected initiatives provided effective and efficient health care services sufficient to warrant their implementation on a Statewide basis.

- In our audit of Automated Information Systems, Department of Treasury, we noted that the Department's general controls over management, security, and program changes of its local area network-based automated information systems were limited in their effectiveness and should be improved. We also noted that the Department had not established effective access controls for the Joint Electronic Filing System.
- In our audit of MDOT's Automated Information Systems, we noted that MDOT had not established controls to ensure the effective and efficient use of all information technology funds. We noted that MDOT paid an additional \$2.1 million above the original bid price for design documents, paid \$768,000 for a geographic information system that was never delivered by the contractor, and paid approximately \$1.2 million for empowerment training that may not have been effective.
- In our audit of Grand Valley State University, we noted that the University had not established a policy to effectively manage low enrollment sections of courses or a policy to effectively monitor repetitive course enrollments.
- In our audit of Western Michigan University, we noted that the University had not established a universitywide policy for assigning values to release time for nonteaching activities. Our analysis of 603 faculty disclosed that 216 (36%) taught six or fewer credit hours, with 55 (9%) teaching three or fewer credit hours.
- In our audit of the Child Development and Care Program, Family Independence Agency (FIA), we noted that FIA's self-declaration policy often did not identify child care aide and relative care provider applicants who had committed a crime against a child or had their child care licenses revoked. Also, FIA did not have a policy to periodically check the status of enrolled child care aides and relative care providers to determine if they had been added to the Central Registry, the State of Michigan criminal history files, or the State's listing of revoked child care licenses.

Human Resources

During fiscal year 1999-2000, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 161-member professional audit staff included 78 certified public accountants, 8 certified internal auditors, 10 certified information systems auditors, and 1 certified management accountant. Staff members actively participated as officers, board members, and committee members of local, State, and national accounting and auditing organizations. In October 1998, we hosted the Midwestern Intergovernmental Audit Forum's Fall Conference for 165 federal, state, and local auditors from six states. In the spring of 2000, we hosted the National State Auditors Association's 22nd Annual Conference.

Conclusion

The Office of the Auditor General continually strives to assist the Legislature in performing its oversight function and to improve the financial management and operations of State departments and agencies.

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Auditors General of Michigan

HISTORICAL LISTING

Thomas H. McTavish, C.P.A.	1989 -
Charles S. Jones, C.P.A. (acting)	1989-1989
Franklin C. Pinkelman, C.P.A.	1982-1989
Albert Lee, C.P.A.	1965-1982
Allison Green (acting)	1965-1965
Billie S. Farnum	1961-1964
Otis M. Smith	1959-1961
Frank S. Szymanski	1956-1959
Victor Targonski	1955-1956
John B. Martin, Jr.	1951-1954
Murl K. Aten	1947-1950
John D. Morrison, C.P.A.	1945-1946
Vernon J. Brown	1939-1944
George T. Gundry	1937-1938
John J. O'Hara	1935-1936
John K. Stack, Jr.	1933-1935
Oramel B. Fuller	1909-1932
James B. Bradley	1905-1908
Perry F. Powers	1901-1904
Roscoe D. Dix	1897-1900
Stanley W. Turner	1893-1896
George W. Stone	1891-1892
Henry H. Aplin	1887-1890
William C. Stevens	1883-1886
W. Irving Latimer	1879-1882
Ralph Ely	1875-1878
William Humphrey	1867-1874
Emil Anneke	1863-1866
Langford G. Berry	1861-1862
Daniel L. Case	1859-1860
Whitney Jones	1855-1858
John Zwegles, Jr.	1851-1854
John J. Adams	1848-1850
Digby V. Bell	1846-1848
John J. Adams	1845-1846
Charles G. Hammond	1842-1845
Henry L. Whipple	1842-1842
Alpheus Felch	1842-1842
Erotus P. Hastings	1840-1842
Henry Howard	1839-1840
Robert Abbott	1836-1839

Reflections on the Office of Auditor General, Past to Present

The office of Auditor General was established March 1, 1836. The office of Territorial Auditor ceased February 19, 1836, and the term of the appointed State Auditor started on the same day (Michigan Laws of 1835). Beginning with the election of John Zwegles, Jr., in 1851, the office of Auditor General became an elective office. The duties and responsibilities continued until Michigan enacted a new constitution in 1963. Under the new constitution, the office of Auditor General became an appointed position and the responsibilities increased to include performance as well as financial post audits.

At the turn of the last century, the Auditor General was also responsible for the disbursement of funds. For example, in the 1900 Annual Report of the Auditor General, Roscoe D. Dix noted:

...the finances of the State are in a very satisfactory condition. December 31, 1896, the State treasury was overdrawn in the amount of \$21,993.34. December 31, 1900, there was \$1,245,459.68 in the State treasury.

He also reported that, during the four years just closed, the State had been required to face an extraordinary expense in connection with the war with Spain: "Bonds to the amount of \$500,000 were issued...."

Some fifty years later, in the 1949 and 1950 Annual Reports of Audits Completed by the Department of Auditor General, Auditor General Murl K. Aten began publishing a summary of audit findings of audits completed. The Auditor General expressed regret that, due to the limited size of the auditing staff, the Auditor General's office was not able to conduct all of the required audits of state agencies.

Auditor General Aten's 1950 report further stated:

There is no yardstick with which to actually determine the total value of periodic audits. Even a casual review of the findings and recommendations contained in our individual audit reports and in this summary report reveals considerable actual dollar savings and tremendous potential savings from recommended procedural improvements and strengthening of controls. Without systematic periodic audits the best of prescribed procedures may be ignored, at least in part, with resultant carelessness, inaccuracy, and lack of control, and eventually unlimited confusion and even financial losses.

The report also contained the following:

It should be pointed out that all of our audit report "comments" are limited to operations or transactions which in our opinion are subject to criticism or question. It is not our intent to criticize with a destructive motive, but rather to perform a constructive service by calling attention to such circumstances or conditions so that they may be improved or corrected.

Michigan's new constitution of 1963 limited the Auditor General to conducting financial and performance post audits. The office was no longer responsible for providing a preaudit function. It also greatly increased the independence and professionalism of the office by requiring the Auditor General to be appointed to an 8-year term and to be a certified public accountant licensed to practice in the State of Michigan.

Today, the reports generated by the Office of the Auditor General are subject to a rigorous quality control system which ensures that all reports meet and/or exceed professional standards.



The Auditor General's office (circa 1895) was housed in the State Capitol building.

Mission and Overview

Mission

The mission of the Office of the Auditor General (OAG) is to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. The OAG best accomplishes its mission by committing to total quality; by adhering to the professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people they serve.

...to improve the accountability for public funds and to improve the operations of State government...

Responsibility

The OAG has the responsibility, as stated in Article 4, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate.

Government officials and employees are accountable to the citizens of the State of Michigan for the proper handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide a continuing flow of information to assist the Legislature in its oversight of more than 120 individual State funds and an annual budget of approximately \$34 billion. OAG audit reports also provide citizens with a measure of accountability and assist department administrators by providing an independent and objective evaluation of their operations. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness, efficiency, and economy in State government.

...to assist the Legislature in its oversight of over 120 individual State funds and an annual budget of approximately \$34 billion.

Audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

Organization and Operation of the OAG

The OAG is under the direction and control of the Auditor General, Thomas H. McTavish. Mr. McTavish is the principal executive and has ultimate responsibility for OAG policies and practices.

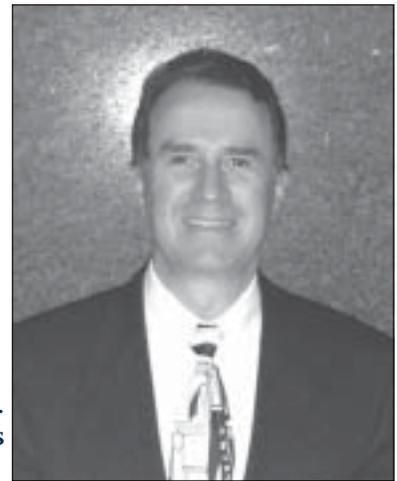


Thomas H. McTavish, C.P.A.
Auditor General

The Auditor General has appointed James S. Neubecker as Executive Deputy Auditor General and Michael J. Mayhew as Deputy Auditor General for Audits to act as his principal aides in carrying out the management responsibilities and audit activities of the OAG.



James S. Neubecker, C.P.A.
Executive Deputy Auditor General



Michael J. Mayhew, C.P.A.
Deputy Auditor General for Audits

The OAG is organizationally divided into four areas of responsibility:

- The Bureau of Audit Operations is responsible for conducting post financial and performance audits of the State of Michigan's executive, legislative, and judicial branches of government, including its universities and community colleges. The Bureau also performs specific reviews in response to legislative requests. In addition, the Bureau participates in joint National State Auditors Association audits with other states' audit agencies.
- The Office of Professional Practice is responsible for performing quality assurance reviews of audit reports and working papers, editing the audit reports, and conducting accounting and auditing research.
- The Office of Information Technology is responsible for managing the OAG local area network, maintaining the management information system, and providing microcomputer support and software assistance to all OAG staff.
- The Office of Administration is responsible for human resource management, computer-assisted graphics support services, accounting and budgeting, audit report production, officewide printing, purchasing, and clerical support.

The OAG is organizationally divided into one bureau and three offices.

A chart depicting this organizational structure is presented on page 9.

At the close of the fiscal year, there were 161 employees on our professional audit staff and 20 technical and clerical employees.

State Relations



Robert T. Ortwein, L.P.C.
State Relations Officer

The OAG is committed to enhancing its communication efforts with all three branches of State government. This commitment is achieved primarily through the employment of a State Relations Officer (SRO).

The SRO's primary responsibility is to facilitate communications with key individuals in the State of Michigan's executive, legislative, and judicial branches of government, including universities, community colleges, research organizations, and all other entities subject to OAG audits. The SRO is a vital link between the OAG and its auditees.

The duties assigned to the SRO have a common purpose of achieving the mission of the OAG by improving the accountability of public funds and improving the operations of State government for the benefit of the citizens of the State of Michigan.

Continuous Quality Improvement Efforts

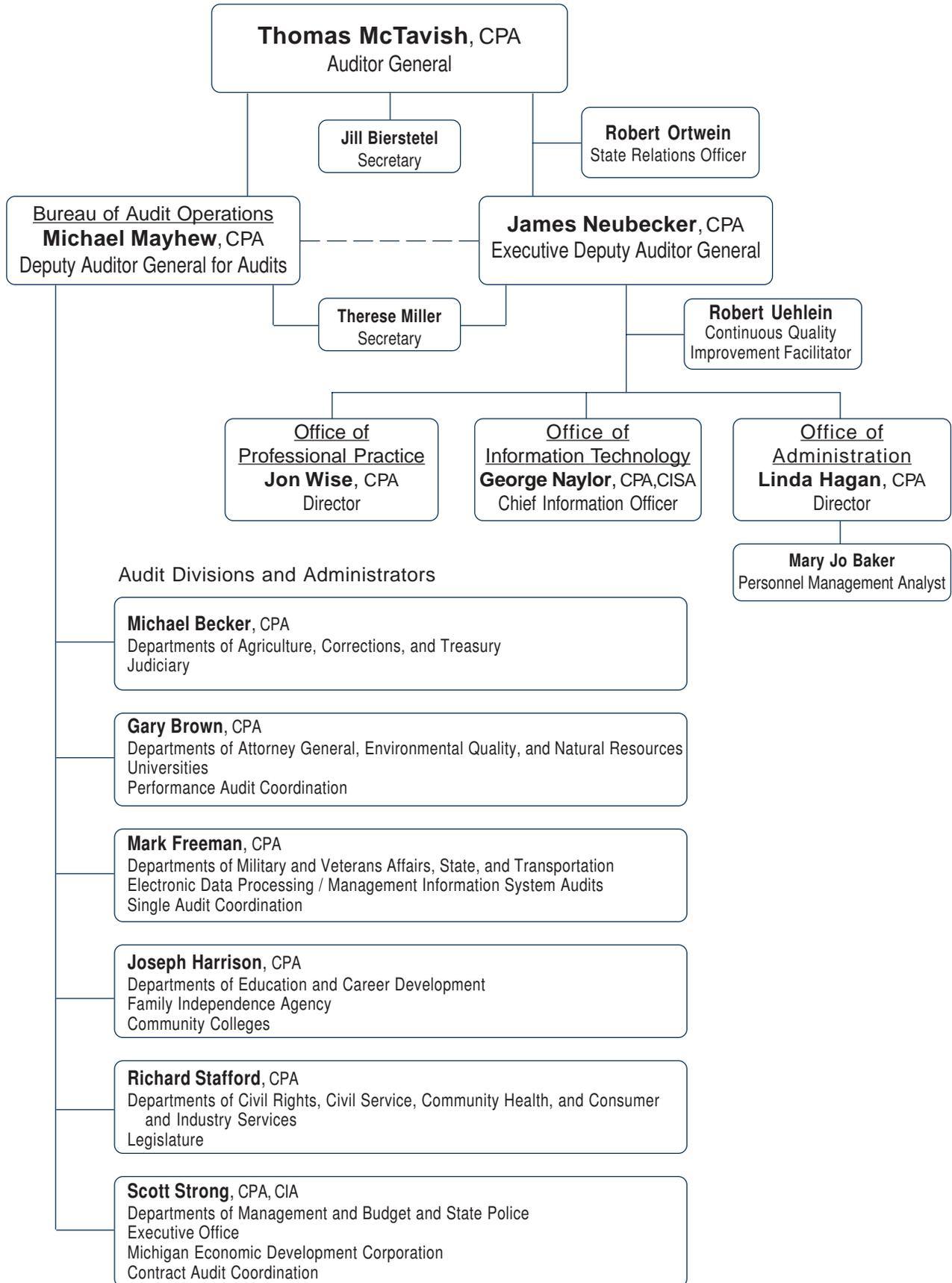


Robert K. Uehlein,
Continuous Quality
Improvement Facilitator

The OAG's Continuous Quality Improvement Facilitator assists in developing quality improvement goals to focus efforts on providing timely and relevant audit services and reports. Measures to monitor progress in meeting these goals are also developed.

Each of the organizational areas within the OAG has developed improvement goals and objectives and performance measurement indicators. We are committed to our continuous quality initiatives as we strive for further improvements in the future.

Organizational Structure



Office of the Auditor General Employees

201 N. Washington Square
Lansing, Michigan 48913

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FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A., AUDITOR GENERAL
Jill A. Bierstetel, Secretary

James S. Neubecker, C.P.A., Executive Deputy Auditor General
Therese M. Miller, Secretary

Robert T. Ortwein, L.P.C., C.S.W., State Relations Officer

Robert K. Uehlein, Continuous Quality Improvement Facilitator

AUDIT OPERATIONS

Michael J. Mayhew, C.P.A., Deputy Auditor General for Audits

Assistant to the Deputy Auditor General for Audits

Calvin L. Kladder, C.I.A.

Audit Division Administrators

Michael R. Becker, C.P.A.

Joseph W. Harrison, C.P.A.

Gary E. Brown, C.P.A.

Richard A. Stafford, C.P.A.

Mark A. Freeman, C.P.A.

Scott M. Strong, C.P.A., C.I.A.

Audit Managers

Steven J. Baker, C.P.A., C.I.S.A.

Assists Mr. Freeman

James W. Bellinger, C.P.A.

Assists Mr. Harrison

Thomas J. Beuerle, C.P.A.

Assists Mr. Stafford

Therese A. Regner, C.P.A.

Assists Mr. Strong

Raymond J. Vernellis

Assists Mr. Becker

James K. Vogel, C.P.A.

Assists Mr. Brown

Principal Audit Supervisors

Donna L. Ackley, C.P.A.
Susan M. Curtis, C.P.A.
Lynn R. Green, C.P.A.
Laura J. Hirst, C.P.A.

Craig M. Murray, C.P.A., C.I.A.
Gerald L. Olson
Melissa A. Schuiling, C.P.A., C.I.S.A.

Senior Audit Supervisors

Richard T. Aapala
Gary J. Bacigal
John T. Cotter, Jr., C.P.A.
Gary A. Curtis
Nancy L. Gifford, C.P.A.
Scot E. Hazel
Steven R. Koschay, C.P.A.
Elden N. Lamb
Jane E. Laycock, C.P.A.
Michael W. Laycock
Mary L. Lowe, C.P.A.

Sid V. Lundquist
Lawrence J. McCliment, C.P.A.
Amy J. Parker, C.P.A.
Lisa L. Pratt, C.P.A.
Larry R. Quintel, C.P.A.
Gerald A. Schwandt
Kevin L. Warner, C.P.A., C.I.S.A.
Richard J. Weller, C.P.A.
Ronald A. Yarsevich, C.P.A.
Jeffrey L. Zemke

Audit Supervisors

Kevin C. Baker, C.P.A.
Karen J. Bosworth, C.P.A.
Michael T. Gardner, C.P.A.
Melinda S. Hamilton
William L. Harper
Beau A. Hill, C.P.A.
Elmer R. Hess, Jr.
Daphne Y. Hobson

Brian C. Hovey, C.P.A.
Tracy L. Jelneck, C.P.A.
Mary G. Martin, C.P.A., C.I.A.
Frank A. Natschke, C.P.A.
Susan H. Rosenbaum
Kathy J. Schroeder, C.P.A., C.I.S.A.
John G. Wirth, C.P.A.

Mission and Overview

Senior Auditors

Anthony A. Alvord
Yvonne L. Benn, C.P.A.
Monica K. Benton, C.P.A.
Kelly L. Blessing
Cheryl A. Bungart, C.P.A., C.I.A.
Michele M. Elms, C.P.A.
Shelly M. Fanson, C.P.A.
Hilary J. Goerge
Julius Hampton, Jr.
Daniel T. Jaroche, C.P.A.
Brian K. Kent, C.P.A.

James A. Maleski, C.P.A.
Carol A. O'Callaghan, C.P.A.
Thomas D. Ongstad
Eileen M. Schneider, C.P.A.
Gregory J. Schroll, C.P.A.
Nancy Jo Serna, C.P.A.
Duane L. Smiley, C.P.A.
Silhouette T. Street
Julie L. Trierweiler
Bryan W. Weiler

Staff Auditors

Renate S. Anderson
Theresa M. Barsch
Kevin D. Bashore
Kelly M. Bernath
James A. Berridge
Edward J. Brickner
Ivy M. Britting
Angela M. Brown-Schafer
Brian T. Buckner
Ryan J. Chittaro
Patricia A. Chooi
Christine L. Covell, C.P.A.
Diane L. DeLuca
Julie A. Dexter
Maureen C. Eardley
Michael J. Foerster
Lisa S. Gormley
Lora J. Grant
Heather A. Hill
Pamela M. Huffman
Karie S. Hughes
Laura M. Ingalls
Paul J. Jacokes
Renee L. Johnson-Maybee
Timothy M. Johnson, C.P.A.
Connie M. Jones
Charles R. Kern, II
Lisa R. Kreiter

Scott A. Kusnier
Chandra L. Lantz
Mark A. Lee
Justin C. Londo
Jennifer M. Lopez
Cheryl A. Manning, C.P.A.
Mary Kay Mays
Amy M. McGreaham
Dennis M. McMillan
Beau A. Miller
Susan D. Morway
Lori S. Mullins
Pamela J. Platter
Stacie L. Sampson
Kristin D. Schultz
Carri A. Simon, C.P.A.
Sandra L. Streb, C.P.A.
Francis W. Thelen
Jill E. Theryoung
Tamara W. Torongo
Jill M. Trepkoski
Audra C. Turner
Michael J. Ventura
Scott R. Werner
Aimee M. Wingle
Rod A. Wlock
Melanie A. Zoerhoff

PROFESSIONAL PRACTICE

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John J. Thrush, C.P.A., Assistant
Director of Professional Practice
Alvin D. Bonds
Cindy L. Grover, C.P.A.
Mary A. Waterhouse, C.P.A.

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Michael B. Amspaugh, C.P.A., C.I.A., C.M.A.
Kelly L. Bengel, C.P.A.

Research and Professional Standards

Mary Jo Koschay, C.P.A.

INFORMATION TECHNOLOGY

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Software Assistance Section

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Laura A. DeMember, C.P.A.
Rodney W. Markowski, C.P.A.

Andrew A. Mitchell

Erica L. Morris, C.P.A., C.I.S.A.
Elizabeth A. Torres

Local Area Network, Management Information System (MIS), and Microcomputer Support Section

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Gabriele E. Brazee
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Jeffrey J. Mikula, C.N.A.
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Assistant Director of Administration
Jackie S. Lawson, C.P.A.
Professional Development Coordinator
Stephanie S. Roach
Professional Development Coordinator
Marilyn K. Tarrant, C.P.A.,
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Mary Jo Baker, Personnel Management
and Administrative Analyst

Administrative Information Services

Michael E. Mrazek, Accounting and
Budgeting Specialist
Dennis J. Strzalkowski, Project Manager

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Dawn R. Pung
Jarita E. Qawwee
Mary Kay Smith
Nicole L. Smith

Office Services

Suzanne M. Kinney, Supervisor
Rick L. Ettinger
Brian D. Smith

Payroll/MIS Input Unit

Theresa M. Fedewa

Types of Audits Performed by the OAG

Financial Audits

Financial audits, which include financial statement and financial related audits, are designed to provide reasonable assurance about whether the financial statements (or schedules) of an audited entity are fairly presented in conformity with generally accepted accounting principles. Other projects that support the financial audits, including facility closing reviews and follow-up reviews of material financial audit findings, may be classified as financial related audits.

Single Audits

Single Audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all federal grantor agencies and other financial report users. Single Audits require 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 U.S. Office of Management and Budget Circular A-133.

Performance Audits

Performance audits, which include economy and efficiency and program audits, are designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve operational effectiveness and efficiency, to provide public accountability, and to facilitate decision making by parties responsible for overseeing or initiating corrective action. Follow-up reviews of material performance audit findings are also classified as performance audits.

Various types of audits complement each other.

Professional Standards

OAG audits are performed in accordance with the following professional standards:

- Generally accepted auditing standards of the American Institute of Certified Public Accountants
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The Single Audit Act Amendments of 1996 and its implementing regulations

Professional standards are strictly adhered to.

Value of Audit Reports

To the Legislature

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The OAG also responds directly to requests from the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. OAG reports contained over 400 recommendations that identified opportunities for improving effectiveness and efficiency in State operations and provided information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding.

Information from audit reports can be used in making informed decisions.

To the Auditee

OAG reports provide objective, unbiased, and independently developed information about the auditee's operations that can be used by management to improve its methods of operating. OAG recommendations, when implemented, frequently result in more effective, efficient, and economical programs.

Many third party readers, including investors and creditors, and the citizens of Michigan use OAG audit reports.

To Third Parties

Investors and creditors obtain OAG reports and use them as a source of information that they can rely on to make decisions. For example, the *State of Michigan Comprehensive Annual Financial Report*, which includes the Auditor General's opinion regarding fair presentation in conformity with generally accepted accounting principles, is relied on by the financial community in setting bond ratings for State-issued debt. This report consistently qualifies for the annual Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association.

Also, OAG Single Audit reports satisfy the federal government's demand for accountability of federal funds allocated to the State of Michigan.

To the Citizens of the State of Michigan

The citizens have confidence in knowing that the Legislature is aggressive in its oversight and accountability of money paid to the State in the form of taxes, fees, and other revenue and prudent in expending funds in accordance with statutes and regulations.

How and To Whom Audit Reports Are Issued

The audit report release process ensures broad distribution.

Approximately five days before the official release date of the audit report, the audited entity receives a copy of the audit report. This enables the entity to be prepared for any questions people may have regarding the audit. The audit report is typically addressed to the audited entity's chief executive officer and/or the chair of its governing board or commission. In addition, copies of the report are routinely sent to the following:

- Relevant House and Senate Appropriations Committee(s)
- Relevant House and Senate Standing Committee(s)
- Audited department and subunits, as may be required

-
- Governor's Office
 - Office of Financial Management, Department of Management and Budget (DMB)
 - House and Senate Fiscal Agencies
 - Anyone who has specifically requested the particular audit report

Although a copy of each audit report is sent to the Capitol press room, the OAG does not issue press releases on any audit reports.

OAG Contact With the Legislature

The audit report is the formal written contact that the OAG has with the Legislature. The OAG routinely provides legislative briefings to key members of oversight and appropriations committees and other members of the Legislature who have expressed a particular interest in specific topics or audit reports.

In the past, several of the audit report briefings have resulted in legislators requesting OAG staff to testify at hearings on the audit report itself.

The Auditor General also testifies periodically on audit-related activities, as requested by the Legislature.

Reaction and Response to an Audit Report

Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 establish requirements for following up audit findings and recommendations for executive branch departments and subunits. The audited departments are required to develop formal responses to OAG audit findings and recommendations. This follow-up is in addition to the

Audit reports, briefings, and hearings are the typical ways the OAG works with the Legislature.

Follow-up of OAG audit reports is provided for in law and administrative procedure.

agency's preliminary response which is included in each OAG audit report.

Audited agencies are required to submit a formal response within 60 days after release of the audit report.

Audited agencies must submit a formal response covering all audit findings and recommendations to the director of the DMB Office of Financial Management within 60 days after release of the audit report, along with a response summary sheet indicating: (1) action completed, (2) recommendations to be complied with, and (3) contested findings and recommendations. Copies are also sent to the DMB Budget Office as well as to the OAG.

Each response must state the agency's agreement or disagreement with the findings and recommendations. If in agreement, the response is to: (1) state the actions taken to address the findings and recommendations and when each action was completed or (2) state what actions will be taken to address the findings and recommendations and when such actions will be completed. If the audited entity is contesting audit findings or recommendations, the entity notes the specific area of disagreement and reason(s) for disagreement.

When the OAG performs an audit of a university or community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the House and Senate Fiscal Agencies, the OAG, and DMB. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Michigan Department of Career Development. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

OAG Follow-Up on Material Findings

Audit reports that contain material findings and recommendations are routinely followed up with a limited scope review approximately six months after the release date of the audit report. In this way, the OAG can review the progress the auditee has made to comply with the recommendations and provide users of the audit report with timely information.

Subsequent Audits

The preparation for subsequent audits begins with a preliminary analysis, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG recommendations. Therefore, the OAG is able to review the status of all of the prior audit recommendations. For most recommendations, compliance will have been satisfactorily achieved. However, when compliance has not been achieved and the facts are substantially the same as before, the OAG will repeat the audit finding and recommendation(s) in the current report.

Material findings and recommendations are routinely followed up approximately six months after the release of the audit report; other findings are followed up during the next scheduled audit of that particular entity.

Audit Operations

The Bureau of Audit Operations is responsible for financial and performance audits of all State operations. The Bureau develops an annual audit plan in which audits are scheduled in accordance with a risk based assessment. Financial audits are scheduled to support the OAG's opinion on the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, to meet State and federal Single Audit requirements, and to comply with other State mandates. Performance audits are scheduled on a priority basis related to their potential for improving program effectiveness and efficiency.

The OAG contracts with public accounting firms for some financial audits. Contractual auditors are selected through a competitive bid process, typically for annually required audits of some State authorities. Contracting with these public accounting firms enables the Bureau to avoid excessive peak seasonal work loads, to complete the financial audits on a timely basis, and to allocate limited professional staff resources to help meet the OAG's increasing demands for performance audits.

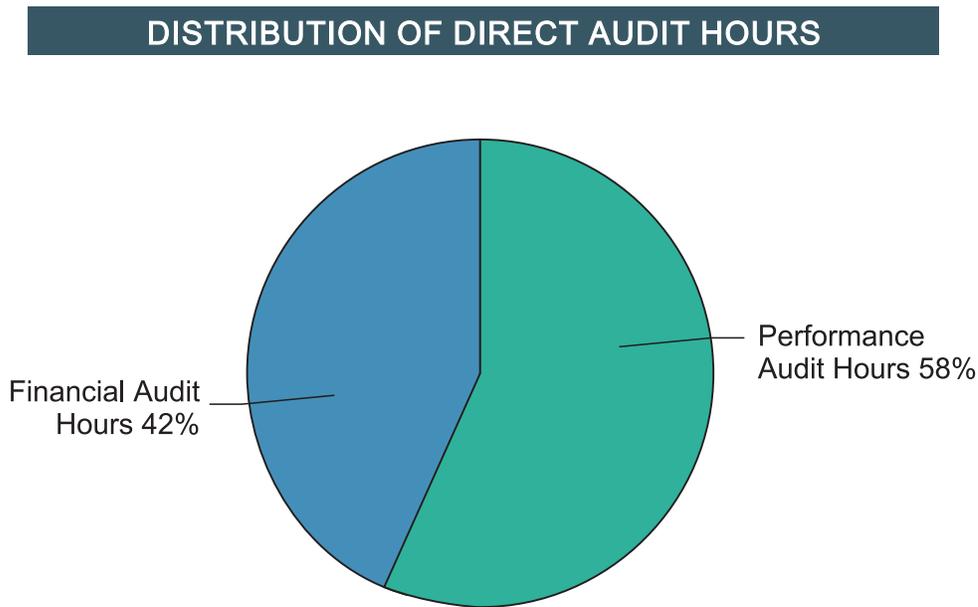


The Bureau of Audit Operations management team, under the direction of Michael Mayhew, regularly meets to discuss all phases of audit operations. The audit division administrators are (left to right) Gary Brown, Mark Freeman, Joseph Harrison, Michael Mayhew (Deputy Auditor General for Audits), Richard Stafford, Scott Strong, and Michael Becker.

During fiscal year 1999-2000, we completed 80 audits (see complete listing starting on page 55) and contracted for 21 additional audits. Our audits were either financial or performance in nature.

In addition to its financial and performance audit staff, the Bureau of Audit Operations has an information systems audit staff that performs audits of the State's information processing centers and automated information systems.

The following graph shows the distribution of direct audit hours used for the different types of audits and reviews in fiscal year 1999-2000:



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■ Financial Audit Hours 42% -- SOMCAFR Audit Hours 8%
Single Audit Hours 29%
Other Financial and Financial Related Audit Hours 5%

FISCAL YEAR 1999 - 2000

Financial Audits

Approximately 42% of our direct audit hours were used for financial audits in fiscal year 1999-2000.

The OAG conducts three types of financial audits:

1. An annual audit of the entire State entity reported in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Approximately 8% of our direct audit hours were used to complete the *SOMCAFR* audit.
2. Biennial audits, in conformance with the federal Single Audit Act, of State departments that receive significant federal funding. Approximately 29% of our direct audit hours were used to complete Single Audits.
3. Periodic audits of other departments, funds, and component units. The composition and frequency of the financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 5% of our direct audit hours were used to complete other financial and financial related audits.

The OAG is committed to reducing the amount of resources used to conduct financial audits while maintaining quality and conformance with standards.

Continuous quality improvement goals

The OAG is committed to reducing the amount of resources used to conduct financial audits while maintaining high audit quality and conformance with all applicable auditing standards. Increased efficiencies from financial audits will be used to provide the resources for the OAG's increasing demands for performance audits.

Under our continuous quality improvement efforts, we have established goals and related objectives to improve the efficiency and timeliness of our financial audit reports.

We are in the process of further refining our audit approaches for the Single Audits, which should lead to significant reductions in the number of hours spent on these audits in the future.

SOMCAFR Audit

The *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* is prepared by the Office of Financial Management (OFM), Department of Management and Budget. The *SOMCAFR* includes the general purpose financial statements of the State of Michigan, combining financial statements, supplemental financial schedules, and statistical data. Included in the State's reporting entity are all governmental organizations for which the State is financially accountable.

As required by statute, the OAG annually audits the *SOMCAFR* and issues an independent auditor's report on the State's general purpose financial statements. For the fiscal year 1998-99 *SOMCAFR*, our independent auditor's report, dated February 15, 2000, included an unqualified opinion. This was the earliest date that we have released our independent auditor's opinion in 23 years.

As a part of our *SOMCAFR* audit, which we conducted simultaneously with the Statewide year-end closing process, we notified OFM and agency accountants of 18 audit findings for fiscal year 1998-99. The findings identified significant accounting and financial reporting exceptions totaling \$428 million.

Significant findings and adjustments associated with our *SOMCAFR* audit included:

1. OFM had not recognized the proceeds from the tobacco settlement in the proper fiscal year in accordance with applicable accounting and reporting standards. Therefore, OFM understated receivables by \$343 million, revenue by \$107 million, and deferred revenue by \$236 million related to the proceeds from the settlement.
2. OFM could not provide support for entries recorded for completed construction projects; therefore, investment in fixed assets was understated by \$19 million.

As a result of our audit, OFM and agency accountants processed adjusting entries totaling \$428 million.

3. The Department of Management and Budget misclassified expenditures by function of \$13.4 million related to year 2000 preparation.
4. The Department of Education had not recorded certain liabilities in the proper fiscal year, thereby understating accounts payable and expenditures by \$7 million in the School Aid Fund.
5. OFM had not developed a complete estimation methodology for compensated absences, resulting in an understatement of long-term liabilities of \$6.8 million.
6. The Family Independence Agency recorded an unearned receipts payable instead of deferred revenue related to federal programs, understating deferred revenue and overstating unearned receipts payable by \$6 million.

Single Audits

In July 1996, the federal Single Audit Act was amended and the U.S. Office of Management and Budget expanded and reissued Circular A-133 as the audit requirements for state and local governments. The revised federal Single Audit Act requires state and local governments receiving \$300,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit conducted. In accordance with Michigan statute (Act 251, P.A. 1986), the OAG audits approximately one half of the applicable departments and agencies each year on an alternating biennial audit cycle.

During fiscal year 1999-2000, we completed Single Audits of the following departments and agencies:

1. Department of Agriculture
2. Department of Attorney General
3. Department of Civil Rights
4. Department of Education
5. Department of Environmental Quality

-
6. Department of Management and Budget
 7. Department of Military and Veterans Affairs
 8. Department of State
 9. Michigan Department of Transportation
 10. Library of Michigan
 11. Michigan Jobs Commission
 12. Michigan Strategic Fund
 13. State-Funded Judicial Operations

We identified that a material internal control weakness existed at the Department of Education:

- The Department of Education should improve its internal control structure pertaining to the oversight of operations by giving higher priority to the internal auditor functions that are specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

We identified material noncompliance with laws and regulations affecting federal programs at two departments:

- The Department of Education did not perform required oversight and monitoring of intermediate school districts (ISDs) participating in the Special Education - Grants for Infants and Families With Disabilities Program to determine that the ISDs complied with federal regulations.
- The Department of Environmental Quality did not ensure that State Revolving Fund (SRF) subrecipient municipalities were aware that SRF loans were considered federal financial assistance. Single Audit reports from subrecipient municipalities did not identify disbursements that the municipalities received from the SRF as federal financial assistance on their schedules of federal financial assistance. This indicates that the municipalities' use of SRF funding was not subject to audit testing for compliance with applicable federal program laws and regulations.

We identified one instance of noncompliance at the Michigan Department of Transportation (MDOT) that could have a direct and material effect on the financial statements:

- MDOT's appropriations acts provided for increases in appropriations based on increases in revenue. We noted that MDOT based its requests for increased appropriations on shortages in spending authority rather than increases in revenue collections. Consequently, MDOT had available spending authority of \$103 million in fiscal year 1996-97 and \$49 million in fiscal year 1997-98 in excess of revenue received.

Other Financial Audits

In addition to Single Audits of most State departments, we conduct financial audits of those State departments not subject to the Single Audit Act. We also conduct financial audits of certain funds and component units of the State, many of which are mandated by State statutes. Based upon our risk assessments, the audit cycles for financial audits range from annually to every four years.

We conduct financial audits in conformance with *Government Auditing Standards*; therefore, our audit objectives include (1) assessing and reporting on compliance with certain provisions of laws, regulations, contracts, and grants and on internal control over financial reporting and (2) auditing the financial statements and/or financial schedules.

During fiscal year 1999-2000, we completed the following financial audits:

1. Michigan State Fair and Exposition Center, Department of Consumer and Industry Services
2. Michigan State Fair and Exposition Center, Department of Agriculture
3. State Treasurer's Annual Report - Opinion Letter
4. State Treasurer's Annual Report - Management Letter

-
5. Michigan Legislative Retirement System
 6. Michigan Liquor Control Commission, Department of Consumer and Industry Services
 7. Executive Office
 8. Michigan Strategic Fund
 9. Michigan Economic Development Corporation

Following are highlights from some of our other financial audits:

Michigan State Fair and Exposition Center (MSFEC), Department of Agriculture

- MSFEC's controls over its cash handling process were seriously deficient. Our review disclosed that MSFEC:
 - a. Did not appropriately separate the functions of cash custody and cash recordkeeping.
 - b. Did not deposit cash receipts in a timely manner as required by the Department of Management and Budget Administrative Guide.
 - c. Did not issue receipts or prepare and maintain records of all cash received.
 - d. Did not perform reconciliations necessary to ensure that all cash received was receipted and subsequently deposited.
 - e. Had not established appropriate control and accountability over preprinted ticket sales.

Michigan Strategic Fund (MSF)

- MSF, in conjunction with the Department of Management and Budget, did not record certain financial transactions properly and in a timely manner. This contributed to inefficiencies and errors that required adjustments.

Michigan Economic Development Corporation (MEDC)

- MEDC, in conjunction with the Department of Management and Budget, did not record certain financial transactions properly and in a timely manner. This contributed to inefficiencies and errors that required adjustments in the preparation of the financial statements.

Financial Related Audits

We also conduct financial related audits with the objective of evaluating a portion of the State's internal control structure related to financial reporting, accounting, and/or controlling assets. Typically, these are audits of data processing systems and/or centers that deal exclusively with information ultimately reported in financial statement/schedule assertions. These audits are done on different time schedules than financial audits, which they support, under our coordinated approach to assessing the internal control structure.

During fiscal year 1999-2000, we completed the following financial related audits:

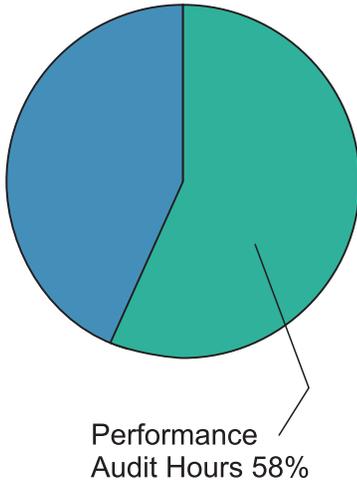
1. Medicaid Management Information Systems, Department of Community Health
2. Child Development and Care Program, Family Independence Agency
3. Child Support Accrual Methodology, Family Independence Agency
4. Use of Transportation-Related Funding, Department of Management and Budget

Following are highlights from one of our financial related audits:

Medicaid Management Information System (MMIS), Department of Community Health (DCH)

- DCH had not established effective control procedures to ensure timely identification and removal of deceased recipients from Medicaid enrollment. We identified 73 recipients coded as active on MMIS as of August 1998 who had died prior to 1997. Twenty-four of the 73 deceased recipients were enrolled in managed care plans that paid providers a recurring negotiated payment per recipient rather than a payment per service provided. As a result, DCH paid \$245,000 in Medicaid benefits for these recipients subsequent to their deaths.
- DCH had not established control procedures to identify and inactivate incarcerated Medicaid recipients. We identified 11 recipients that received Medicaid benefits totaling \$36,000 while incarcerated.

Performance Audits



Approximately 58% of our direct audit hours were used for performance audits in fiscal year 1999-2000. For purposes of this annual report, we have also included in this category mandated audits with only compliance objectives and audits with a combination of performance and financial related objectives.

Performance audits are conducted on a priority basis related to the potential for improving State government operations. Our primary objective for conducting performance audits is to improve the effectiveness, efficiency, and economy of State government operations. Effectiveness is producing the outcome desired by the citizens of Michigan and mandated by the Legislature, efficiency is a measure of useful services delivered compared with the resources applied, and economy is the prudent use of resources.

Our performance audits found that State departments, agencies, and programs generally operated in an effective, efficient, and economical manner. However, our audits resulted in numerous recommendations for further improving the programs audited.

Continuous quality improvement goals

The OAG has established several goals that relate specifically to our performance audit efforts. Our first goal is to increase performance audit hours as a percent of our total audit hours through increased efficiency in our financial audits. The OAG expects the economic impact from all of our performance audit findings to exceed the cost of the audits by at least 10 times (1,000%). We also have goals for improving the timeliness of the performance audits and for addressing performance audit issues that are of interest to members of the Legislature and Michigan residents.

Our increased efficiency in financial audits allowed us to increase the percentage of hours used on performance audits. In fiscal year 1999-2000, we used 58% of total audit hours for performance audits. This was more than the 55% we spent on performance audits during fiscal year 1997-98 and considerably more than the 45% we spent during fiscal year 1995-96.

Following are highlights from some of our performance audits:

African American Male Initiative, Department of Community Health (DCH)

The overall goal of the health strategy relating to African American males was to reduce the incidence of and mortality from health problems and risk behaviors which contribute to the poor survival of the African American male. In July 1997, DCH created the African American Male Initiative as a response to the Statewide task force formed to suggest actions to combat the alarming health status of Michigan's African American male citizens.

Our audit determined that DCH had not established a formal mission statement or quantified goals and objectives for the Initiative. DCH also had not developed an evaluation plan for the Initiative and had not sufficiently evaluated the Initiative. In addition, DCH did not provide sufficient planning for allocating funds to human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) prevention services or retain sufficient documentation to support its review and award of HIV/AIDS grants.

A formal mission statement and quantified goals and objectives need to be established

Unclaimed Property Division (UPD), Department of Treasury

The Department requested that a private contractor provide an estimated cost for converting all microfiche property records to the automated Unclaimed Property System (UPS). The Department estimates that the cost to convert the property records to the automated UPS will be \$680,000. However, the audit questioned the reliability of the estimate and noted numerous factors that will affect the final cost. The audit also determined that restricting refunds of unclaimed properties to amounts over \$50 would significantly reduce the number of properties in UPD's custody, improve the cost-benefit ratio of the refund process, reduce the potentially high cost of converting the property records, and could enable UPD to place more emphasis on the search for owners and holders. UPD estimates that approximately 80% of the property records are valued at less than \$50.

Records conversion cost estimate may be unreliable

Bureau of Health Care Services, Department of Corrections

The Bureau had not developed mechanisms for fully assessing the effectiveness and efficiency of new health care initiatives. As a result, the Bureau could not assure itself that selected

Mechanisms to assess the effectiveness and efficiency of new health care initiatives needed

initiatives provided effective and efficient health care services sufficient to warrant their implementation on a Statewide basis. In addition to its inability to fully analyze the efficiency of pilot programs, the Bureau did not have mechanisms for evaluating the quality of care provided by the privatized clinics. Overall, we concluded that the privatized ambulatory health care services pilot was inefficient and provided reduced levels of care to the prisoners. However, it is imperative that the Bureau be able to fully evaluate the effectiveness and efficiency of new health care initiatives.

Michigan Historical Center (MHC), Department of State
MHC did not ensure that archives records were processed and that museum artifacts were cataloged on a timely basis. Approximately 40,000 hours are needed to eliminate the backlog of State records that need to be processed and made available for research. Also, there was a four- or five-year backlog of artifacts that had not been cataloged and made available for display in the State Historical Museum.

General controls over automated systems need improvement

Automated Information Systems, Department of Treasury
The Department's general controls over management, security, and program changes of its local area network (LAN) based automated information systems were limited in their effectiveness and should be improved. We noted reportable conditions related to a comprehensive information systems security program, LAN user access controls, LAN physical security controls, LAN backup and recovery controls, software licensing agreement controls, and program change controls.

Also, the Department had not established effective access controls for the Joint Electronic Filing System (JELF). We noted that the Department did not restrict access to JELF programs and data to only authorized users, did not monitor individual access into the JELF database, and did not implement proper separation of duties.

Automated Information Systems, Michigan Department of Transportation (MDOT)

MDOT did not implement an effective information technology control environment. Also, MDOT did not comply with the Department of Management and Budget (DMB) and MDOT policies and procedures for contracting for system development. We noted that MDOT entered into agreements and split payments to circumvent DMB purchasing rules, did not obtain DMB approval for contractual services contracts

for many systems, and did not obtain competitive bids or adequately justify its use of sole-source contracts.

In addition, MDOT had not established controls to ensure the effective and efficient use of all information technology funds. We noted that MDOT paid an additional \$2.1 million above the original bid price for the Transportation Management System (TMS) design documents that should have been delivered at the original price; paid \$768,000 for a geographic information system for TMS that was never delivered by the contractor; and paid approximately \$1.2 million for empowerment training that may not have been an efficient and effective use of funds.

Lack of controls costs millions

Grand Rapids Home For Veterans, Department of Military and Veterans Affairs

The Home's established security and internal control for pharmacy operations should be improved. We found weaknesses related to physical security, inventory, accountability, and separation of duties within pharmacy operations.

Pharmacy controls lacking

Also, the Home needs to strengthen internal control over cash handling procedures. We noted that there is no periodic cash count by someone independent of the cashiering operation, a complete cash log of all money received at the Home through the mail is not maintained, cash advances made from the petty cash fund in the member activities department were not properly documented, and the Home did not provide for the separation of duties in the cashier's office.

Grand Valley State University

The University had not established a policy to efficiently manage low enrollment sections of courses. We identified 81 course sections in our sample of 1,188 that were held with less than 12 students. Of these, 43 were for elective courses that had an average enrollment of 6.2 students.

Lack of academic progress results in inefficient use of resources

Also, the University had not established a policy to effectively monitor repetitive course enrollments. Our analysis disclosed 69 instances in which 61 students were enrolled in the same courses four or more times. The establishment of reasonable limitations on repetitive enrollments would provide the University with the opportunity to identify and counsel students who are not progressing satisfactorily.

Western Michigan University

The University had not established a universitywide policy for assigning values to release time for nonteaching activities. The individual colleges of the University establish their own values for the activities. Our analysis of 603 faculty disclosed that 216 (36%) taught six or fewer credit hours, with 55 (9%) teaching three or fewer credit hours.

Office of Support Services (OSS), Department of Management and Budget

OSS could improve the forms management program by actively advising State agencies of the most cost-effective methods of printing, storage, and disposal of forms and publications based on the agencies' needs. We estimated that State agencies incurred unnecessary printing and storage costs for overstocked and obsolete forms and publications of \$714,822 over a two-year period.

Printing and storage of overstocked and obsolete forms costly to State

Legal Incapacitation, Involuntary Hospitalization or Treatment, and Not-Guilty-By-Reason-Of-Insanity Court Order Information Within the Law Enforcement Information Network (LEIN)

A significant percentage of court orders reviewed for persons determined to be legally incapacitated, required to undergo involuntary hospitalization or treatment, and adjudged not guilty by reason of insanity were either not in LEIN or were in LEIN but the information was inaccurate. Missing or inaccurate court orders increase the risk that a LEIN query will not identify a person determined to be legally incapacitated or with a mental health deficiency and that these persons could receive a license to purchase, carry, or transport a pistol, including a concealed pistol.

LEIN records incomplete

Child Development and Care Program, Family Independence Agency (FIA)

FIA's self-declaration policy often did not identify child care aide and relative care provider applicants who had committed a crime against a child or had their child care licenses revoked. Also, FIA did not have a policy to periodically check the status of enrolled child care aides and relative care providers to determine if they had been added to the Central Registry, the State of Michigan criminal history files, or the State's listing of revoked child care licenses. As a result, the risk that children could be abused, neglected, exploited, and endangered increased.

FIA needs to improve screening and monitoring of care providers

In fiscal years 1997-98 and 1996-97, FIA reimbursed the 1,312 aides and relative care providers listed on the Central Registry or convicted of crimes against a child approximately \$2.2 million and \$1.2 million, respectively. In addition, FIA paid aides and relative care providers who would have been denied enrollment in other states for family day care and group day care homes approximately \$8.4 million.

Bilingual, Migrant, and Selected King-Chavez-Parks Initiative Programs, Department of Education

The King-Chavez-Parks Initiative's guidelines for universities' use in selecting individuals to receive Future Faculty Fellowship Program (FFFP) fellowship awards were not comprehensive. As a result, we questioned the propriety of several fellowship awards. Also, the Initiative waived the contract liability of numerous FFFP fellows and closed the contracts as fulfilled without the fellows' completion of teaching requirements.

Propriety of future faculty fellowship program (FFFP) awards questioned

Michigan Career and Technical Institute, Michigan Department of Career Development

Michigan Career and Technical Institute (MCTI), in conjunction with Michigan Rehabilitation Services (MRS), had not formalized its process to assess the propriety of current training programs and potential new programs and did not document activities associated with the process. Without a documented formal process, MCTI could not demonstrate that its limited resources were used for the most appropriate training programs. Also, MCTI, in conjunction with MRS, had not determined the effect that its career assessment processes had on student graduation and initial training program completion rates.

Effect of training programs not documented

Kalamazoo Valley Community College

The College should establish an academic progress policy and related procedures to help ensure students' academic progress. Also, the College should establish a formal, written policy that addresses repetitive course enrollments and their impact on academic progress and the College's allocation of resources.

Academic progress of students needs monitoring

THE MICHIGAN LEGISLATURE

Michigan became the twenty-sixth state of the Union 163 years ago, on January 26, 1837. The early Legislature – 16 senators and 50 representatives – was faced with implementing the new and untested constitution, establishing State institutions, and developing the wilderness. It was a momentous task for a relatively inexperienced legislative body, one that would ultimately help shape Michigan's future.

Today, the Michigan Legislature has matured to a body of 38 senators and 110 representatives who continually fine-tune the State's existing laws and propose new legislation to keep pace with our constantly changing world. For example, while the early Legislature worked to develop the wilderness, today's body is trying to protect our remaining natural resources and preserve Michigan's inherent splendor. Each year, the Legislature considers hundreds of bills, amendments and resolutions which address a multitude of issues from education to business to tax policy. While scores of bills are introduced, only those approved by both the Senate and the House, barring the governor's veto, will become law.



Legislative Requests

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature confidently use in making State policy decisions. The OAG responds directly to requests from the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Legislators often become aware of problems or areas of concern and communicate them to the OAG for review. Legislators' intimate knowledge of State government programs and their close contact with constituents provide an important resource for the OAG's risk assessment process for identifying audit priorities.

Responding to legislative requests is an important function because the OAG is the only agency in State government which has the sole responsibility to act as the overseer of public funds on behalf of the Legislature.

Sometimes the OAG addresses legislative requests within the scope of performance audits. In other instances, if the scope of the request is narrow and/or time is of the essence, the requests are satisfied through special projects and review reports. Requests frequently result in the OAG evaluating program outcomes, analyzing program expenditures, and determining if program operations were in compliance with applicable statutes and regulations.

The OAG's responsiveness to legislative requests clearly serves the public interest. Most audits and reviews resulting from legislative requests have confirmed the existence of problems and resulted in recommendations to correct or improve government operations, sometimes through amendatory legislation. Our responsiveness enhances the Legislature's ability to carry out its oversight responsibilities in a way that is consistent with the best interests of the citizens of Michigan.

Responding to legislative requests is an important function of our office.

National Awards

The OAG actively participates in the National Legislative Program Evaluation Society (NLPES) which is associated with the National Conference of State Legislatures. All legislative staff who conduct program evaluations or performance audits are NLPES members. NLPES promotes professionalism, training, and the exchange of ideas and information about legislative program evaluation.

NLPES has given an “Impact” award to the OAG in each of the past two years. This national award honors participating legislative program evaluation offices that have produced work which has demonstrably improved state government. The NLPES selection criteria for the award are:

- Dollar savings from implementing audit recommendations.
- Program improvements as a result of implementing audit recommendations.
- Impacts from the legislature’s perspective.
- Impacts from the public perspective.
- Impacts from other organizations’ perspectives.

Calendar Year 1999 Award

In our first year of participation in the NLPES Awards Program, the OAG received a certificate of Recognition of Impact. This national award was for the performance audit of Charter Schools Office and Michigan Resource Center for Charter Schools, Central Michigan University. The audit team (pictured below) consisted of Jackie Lawson and Tracy Jelneck.



This audit, which reflected nine material conditions adversely impacting the Michigan charter school educational environment, ultimately led to numerous improvements. The audit report addressed insufficient oversight by Central Michigan University and the need for better monitoring and communication with intermediate school districts and the State Department of Education.

The audit culminated in legislative hearings and Central Michigan University ceasing its processing of charter school applications until it had addressed the material conditions and other reportable conditions identified in the audit report.

Calendar Year 2000 Award

In our second year of participation in the NLPES Awards Program, the OAG received a 2000 Impact Award for the performance audit of Juvenile Justice Services, Family Independence Agency. The audit team, picture below, consisted of (sitting, left to right) Nancy Gifford, Beth Larson, (standing, left to right) Frank Natschke, Cheryl Bungart, and Michael Gardner. Missing from the picture is Jennifer Trudeau.



This performance audit, which included six material audit findings and disclosed the need for numerous improvements in the services that the Family Independence Agency provides to adjudicated delinquent youths, has led to many operational and programmatic changes.

Audit Operations Project Team Award

The Audit Operations Project Team Award (AOPTA), established in 1992, continues to recognize exceptional efforts of project teams within the Bureau of Audit Operations on a biannual basis.

The performance audit of the Reporting of Driver License Points and the Collection and Disposition of Fines and Fees was the recipient of the AOPTA for the six months ended September 30, 1998. The audit team consisted of Donna Ackley, supervisor, and team members Kelly Bernath, Alvin Bonds, and Nancy Jo Serna.

The audit contained challenging aspects, including involvement by two branches of State government and 20 court offices of three different types, first time exposure to performance auditing by many of the courts involved, complex legal issues, and travel.

The auditors worked as a successful team in identifying recommendations for improving the effectiveness and efficiency of the program audited. This resulted in an outstanding report that contained numerous findings that were high impact, interesting, informative, and convincing. The auditee agencies agreed to implement the recommendations. When implemented, these recommendations will make the roads in Michigan safer for everyone.



The award for the six-month period ended September 30, 1998 was presented to the team of (left to right) Kelly Bernath, Donna Ackley, Nancy Jo Serna, and Alvin Bonds.

The performance audit of Juvenile Justice Services, Family Independence Agency (FIA), was the recipient of the AOPTA for the six months ended March 31, 1999. The audit team consisted of Nancy Gifford, supervisor; team members Cheryl Bungart, Michael Gardner, Frank Natschke, and Jennifer Trudeau; and software assistance by Beth Larson.

The report generated significant legislative interest and is an excellent example of a high-impact audit of services that affect, either directly or indirectly, many citizens of the State. The report contained 20 findings, 6 of which were classified as material, pertaining to the continuum of services that FIA provides to adjudicated delinquent youth.

The audit was complex and difficult to conduct because of the many facets involved with assessing and re-assessing delinquent youth needs. The project is also an example of establishing an excellent working relationship with the auditee. The rigorous due process that was maintained and the early sharing of preliminary results with FIA management proved very beneficial. Not only did FIA agree with all of the findings and corresponding recommendations, FIA responded that it had already initiated numerous corrective actions. The results of this audit should help to significantly improve the providing of services to delinquent youth.



The award for the six-month period ended March 31, 1999 was presented to the team of (sitting, left to right) Nancy Gifford, Beth Larson, (standing, left to right) Frank Natschke, Cheryl Bungart, and Michael Gardner. Missing from the picture is Jennifer Trudeau.

Audit Operations

The performance and financial related audit of the Medicaid Management Information System (MMIS), Department of Community Health, was the recipient of the AOPTA for the six months ended September 30, 1999. The audit team consisted of Paul Green, supervisor; team members Timothy Martin, Rhonda Williams, and John Wirth; and software assistance by Beth Larson.

The audit of MMIS was a complicated and sensitive audit. MMIS processes in excess of \$5 billion in payments per year. The Medicaid payments have been identified as one of the State's essential functions. In addition, there is ongoing interest in the system by the Legislature and the media.

The audit team developed audit objectives that required the evaluation of the effectiveness of the controls built into MMIS to ensure accurate, complete, timely, and secure information. The team developed 7 findings and 10 corresponding recommendations. Two findings related to deceased and incarcerated recipients improperly receiving Medicaid benefits. The audit team also developed recommendations related to the effective use of the Surveillance and Utilization Review Subsystem and the MMIS drug file. Implementation of these recommendations should result in improved oversight over Medicaid payments and the possibility of attaining reduced pricing on pharmaceuticals.



The award for the six-month period ended September 30, 1998 was presented to the team of (left to right) Paul Green, Rhonda Williams, Timothy Martin, and John Wirth. Missing from the picture is Beth Larson.

The performance and financial related audit of the Child Development and Care Program, Family Independence Agency (FIA), was the recipient of the AOPTA for the six months ended March 31, 2000. The audit team consisted of Michael Laycock, supervisor; team members Brian Hovey, Daniel Jaroche, and Piper Metz; and software assistance by Andrew Mitchell and Beth Larson.

This report, which contained four material findings, is an excellent example of how a well-planned and executed high-impact performance and financial related audit can impact the citizens of Michigan and improve their quality of life. Overall, the report contained 8 findings and 13 corresponding recommendations related to the Program's mission to ensure the availability, affordability, and quality of child care for Michigan's citizens. Based on recent welfare reforms, having affordable and quality child care available has been and will continue to be critical to maintain and expand the success of welfare reform programs.

The audit utilized various data matches to evaluate FIA's efforts to screen and monitor child care aides and relative care providers. Although FIA disagreed with some findings, it agreed with all of the recommendations and has been working on corrective actions. Several news stories reported on the findings of the audit, and legislation was introduced to help ensure that children receiving child care services are protected from the risk of exploitation and endangerment. In addition, enacted budget bills have provided expanded fiscal eligibility for State child care assistance.



The award for the six-month period ended September 30, 1998 was presented to the team of (left to right) Daniel Jaroche, Brian Hovey, Michael Laycock, and Andrew Mitchell. Missing from the picture are Piper Metz and Beth Larson.

Our audit effort requires the support of three organizational units: the Office of Professional Practice, the Office of Information Technology, and the Office of Administration.

Office of Professional Practice

The Office of Professional Practice support services include performing quality assurance reviews of audit reports and working papers; editing audit report text for substance, correctness, and style; and conducting accounting and auditing research to keep staff abreast of ever changing professional standards, pronouncements, and trends. Also, the Office coordinates the triennial external quality control review (peer review) of the OAG, conducted by the National State Auditors Association, and the OAG's participation in the National State Auditors Association's peer reviews of other states' audit agencies.

Oversees the OAG quality control system

The Office of Professional Practice oversees the traditional quality control system of the OAG and provides guidance to audit division administrators, audit managers, and supervisors to improve audit services and reports prior to completion of the fieldwork. The Office also provides assistance to professional staff to ensure that all audit reports and working papers meet not only the standards of our profession but also the high quality standards of the OAG. In addition, the Office has developed quality improvement goals that complement the vision, goals, and objectives developed by the Bureau of Audit Operations.

Office of Professional Practice - (left to right) Alvin Bonds, Cindy Grover, Kelly Bengel, John Thrush, Michael Amspauagh, Mary Jo Koschay, Jon Wise (Director of Professional Practice), Mary Waterhouse, and Julie Chamberlain.



Quality Assurance

Quality Assurance staff review our audit reports and related working papers to ensure compliance with professional standards issued by the Governmental Accounting Standards Board, the Comptroller General of the United States, and the American Institute of Certified Public Accountants, as well as policies and procedures of the OAG. These quality assurance reviews, conducted in conjunction with management's report review and the report editing functions, are a fundamental part of our overall system of quality control. The reviews provide an assessment of audit quality, both on individual audits and on an officewide basis, and identify issues requiring further policy and procedure development. During the course of our audit fieldwork, audit staff frequently consult with Quality Assurance staff on issues related to conducting and reporting on the various types of audits.

Quality Assurance staff also conduct reviews of selected audit engagements performed by contracted public accounting firms to determine compliance with contract provisions and adherence to professional standards. In fiscal year 1999-2000, the OAG contracted with public accounting firms to perform 21 separate audit engagements.

Audit Report Review

Well-written audit reports clearly convey the results of our audit effort to the reader. To accomplish this, Audit Report Review edits the audit reports for substance, correctness, and style. The substance portion of the review determines that the report is clear, concise, and conceptually sound and adheres to relevant standards for content and form; the correctness portion of the review ensures the use of proper grammar and consistent terminology; and the style portion of the review focuses on OAG preferences for language and composition.

In addition to the editing function, Audit Report Review staff provide assistance to audit staff regarding report processing, report format and style, and grammar. Also, Audit Report Review staff maintain the OAG Style Manual, which is designed as a practical guide to assist audit staff in writing audit reports.

Reviews audit reports and working papers for quality and compliance with standards

Edits the audit reports for substance, correctness, and style

Provides timely assistance on accounting and auditing issues

Research and Professional Standards

Research and Professional Standards provides timely professional and technical assistance on accounting and auditing issues to management and staff, facilitates the development of officewide policies and procedures relating to professional standards and practices, and maintains a professional reference library. We continue to implement new computer-assisted research programs, as they become available, to more efficiently provide assistance to staff. The ongoing revision of the OAG Auditor's Manual has resulted in more than 50 audit procedures and directives to ensure compliance with applicable professional standards and to increase the effectiveness and efficiency of our audit activities.

Research and Professional Standards develops responses to technical discussion memorandums, exposure drafts, and issue papers of various national professional organizations, such as the Governmental Accounting Standards Board, U.S. General Accounting Office, American Institute of Certified Public Accountants, National State Auditors Association, Federal Accounting Standards Advisory Board, and Government Finance Officers Association. Also, we contribute to the profession by making frequent presentations at conferences and seminars of professional organizations and by participating on their standing committees.

Office of Information Technology

The Office of Information Technology (OIT) is responsible for managing our local area network, maintaining our management information system, and providing microcomputer support and software assistance to all OAG staff.



Office of Information Technology - (left to right) Kimberly Jacobs, Elizabeth Torres, Rodney Markowski, David Batz, Laura DeMember, Erica Morris, Jason Michels, Jeffrey Mikula, Gabriele Brazee, David Newkirk, Thomas Mason, Joshua Galloway, Andrew Mitchell, Brad Jarvis, and George Naylor (Chief Information Officer).

Year 2000

Our effective planning and preparation resulted in an uneventful and smooth transition to the year 2000. OIT's evaluation of our computer hardware and software proved effective in identifying potential year 2000 weaknesses and in implementing solutions. OIT also developed a contingency plan which, fortunately, we did not need to implement.

Local Area Network, Management Information System, and Microcomputer Support Section

This Section maintains the OAG local area network and management information system and provides end-user computing (EUC) support to our audit staff. Our local area network, through its connection to the State of Michigan's wide area network, permits both our central office staff and our staff at audit locations to share automated information and to communicate vital information electronically. The network capability provides users with electronic working paper, word processing, spreadsheet, data analysis, electronic mail, Internet browser, and database software. It also provides users with access to our management information system, which contains audit report tracking, personnel, and financial information. EUC support is provided in the form of both hardware and software problem solving, hardware maintenance, and software

Permits staff to communicate vital information electronically

Provides problem solving, hardware maintenance, and software training for EUC support to auditors

training. The Section also ensures that each auditor has a microcomputer and the necessary software to assist in the performance of an audit.

In fiscal year 1999-2000, we upgraded our automated working paper software, word processing and spreadsheet software, and network software. This ensures compatibility with other agencies and provides us with new software features to promote an efficient work environment. We also installed network software that permits us to automatically upgrade the software on all OAG notebook and desktop computers via our network. We upgraded our computers, as necessary, to provide our staff with the processing power to support our expanded use of electronic working papers, automated data analysis, electronic mail, and the Internet.

We enhanced our Internet web site to include complete audit reports, a search function, and a “list-serve” function. This has resulted in a significant increase in the number of visitor sessions per month. Currently, our web site has approximately 3,600 visitor sessions per month. Visitors to our web site now have the ability to search for specific audit reports and then download them. Visitors can also sign up on our “list-serve” to automatically receive a copy of the executive digest of each newly released audit report via email.

Software Assistance Section

This Section analyzes automated information stored in any electronic format to assist OAG staff during audit fieldwork. We have the ability to extract and analyze any automated information for audit. This analysis includes both mainframe and microcomputer programming to manipulate and analyze automated financial and nonfinancial records (e.g., licensing, college student enrollment, and public assistance) for audit.

Provides the capability to analyze automated records in support of on-going audits

In fiscal year 1999-2000, we developed standard microcomputer applications to analyze automated information for audit. This has resulted in reduced turnaround time of automated information analysis requests, and it has helped to establish standardized audit processes.

We continued to provide microcomputer hardware and software training to OAG staff, as well as providing software assistance to 100% of financial audits and 90% of performance audits. Our analysis of automated information identified weaknesses in agency automated systems and internal control. It also provided documented support for audit findings contained in our audit reports.

Office of Administration

The Office of Administration provides human resource management; Michigan Administrative Information Network (MAIN), Data Collection and Distribution System (DCDS), and Human Resources Management Network (HRMN) implementation and administration; computer-assisted graphics support services; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.



Office of Administration - (left to right) front row Linda Hagan (Director of Administration), Stephanie Roach, Jarita Qawwee, Dennis Strzalkowski, second row Amanda Feldpausch, Paul Green, Suzanne Kinney, third row Michael Mrazek, Mary Kay Smith, Theresa Fedewa, Dawn Pung, fourth row Mary Jo Baker, Nicole Smith, Rick Ettinger, and Brian Smith. Not pictured are Donna Glowacki, Jackie Lawson, and Marilyn Tarrant.

Human Resources

The delivery of human resource services is of prime importance to our organization. We strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management. During the past two years, staff have devoted a great deal of time preparing to implement HRMN. When it is fully implemented, HRMN will replace the State's existing human resources management systems (PPRISM, PPS, and ACCEL) and will provide a comprehensive Internet-based system which will encompass personnel, payroll, and benefits functions, plus data exchange with retirement systems.

Recruiting

We actively participated in campus recruiting activities during the past two years and also conducted interviews in our Lansing office. We successfully recruited and hired 12 student assistants for limited term appointments, 35 full-time auditors, 3 full-time information technology analysts, and a new supervisor for our Office Services unit.

... strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management.

Professional standards require 80 hours of continuing education every two years.

<i>Certified Public Accountants</i>	78
<i>Certified Internal Auditors</i>	8
<i>Certified Information Systems Auditors</i>	10
<i>Certified Management Accountants</i>	1
<i>Master's Degrees</i>	13
<i>Doctorate in Public Administration</i>	1
<i>Associate's Degrees in Data Processing</i>	6

Staff Development

We place great importance on developing and retaining staff. All staff members are encouraged and provided the opportunity to develop their professional skills. In addition, the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the State Board of Accountancy require members of the profession to annually obtain continuing professional education. For example, *Government Auditing Standards* require that auditors complete at least 80 hours of continuing education every two years. In fiscal years 1998-99 and 1999-2000, the OAG provided approximately 8,800 and 9,200 hours, respectively, of continuing education. Training focused on working paper preparation; assessing controls in performance audits; performance measures and results; transaction testing using the State of Michigan's accounting system; software training that encompassed accessing, understanding and manipulating data and reporting results; and enhancement updates to the automated working paper software. We continued to offer FranklinCovey time management training to new employees. We provided technical training that covered numerous topics including network security issues and development methodologies. We also provided staff with an overview of the new reporting model and audit issues associated with that change. Additionally, we provided sexual harassment training to our entire staff, increasing their understanding of what constitutes sexual harassment and how it applies to the workplace.

As part of staff development, we actively support auditors seeking professional certification and advanced degrees through our administrative leave policy and our tuition reimbursement program. Of our 161 professional audit staff, 81 have obtained certification from one or more of the various professional certification programs. The OAG professional audit staff includes 78 certified public accountants, 8 certified internal auditors, 10 certified information systems auditors, and 1 certified management accountant. We also have 13 staff members who have earned master's degrees, 1 staff member who has earned a doctorate, 1 staff member who has a Juris Doctor degree, and 1 doctoral candidate. In addition, we have had 6 staff members complete associate's degrees in data processing, in addition to their bachelor's degrees.

During 1998-99 and 1999-2000, the following OAG staff members earned professional certifications:

Certified Public Accountants

Yvonne L. Benn
Laura A. DeMember
Michele M. Elms
Brian C. Hovey
Eileen M. Schneider
Carri A. Simon
Duane L. Smiley
Christine L. Covell
Timothy M. Johnson
Cheryl A. Manning
Sandra L. Streb

Certified Novell Administrators

Thomas D. Mason
Jason M. Michels
Jeffrey J. Mikula
David L. Newkirk

Many OAG auditors are active in professional organizations, including the American Institute of Certified Public Accountants; the Michigan Association of Certified Public Accountants; the Government Finance Officers Association; the Association of Government Accountants; the National Association of State Auditors, Comptrollers, and Treasurers; the National State Auditors Association; the Institute of Internal Auditors; the Midwestern Intergovernmental Audit Forum; the State Association of Accountants, Auditors, and Business Administrators; and the Information Systems Audit and Control Association. Many of these organizations have continuing representation from our office on an official basis at their respective meetings.

Administrative Information Services

Administrative Information Services uses a variety of electronic publishing hardware and software to create, revise, and enhance our audit reports, office forms, and stationery. Electronic publishing impacts most aspects of OAG operations, enhances the readability of the OAG's published materials, and eliminates the need for external contracting.

Accounting and Budgeting

We started the development of our annual budget request about six months earlier this past year. This entailed preparing our budget request for a fiscal year that is two years in the future, as we were closing out our financial records for the current fiscal year and as we were entering budgetary records for the next fiscal year. This took a great commitment on the part of all OAG staff involved in preparing, approving, and implementing our accounting and budgeting activities.

Office Services

Office Services is responsible for providing numerous services to all OAG staff. These services include:

- Printing and publishing of OAG audit reports, the annual report, the recruiting brochure, and numerous other documents.
- Assisting in the design and preparation of training materials.
- Ordering, receiving and stocking of office supplies and equipment.
- Arranging for the surplus and salvage of OAG materials, equipment, and furniture.
- Recycling activities.

An evaluation of the printing and copying equipment in Office Services indicated a need for updated technology. We decided to move towards on-line digital printing, and the recent acquisition of a color copier and two copy machines has brought us closer to realizing our goal of publishing reports with an on-line network process. With further development of and familiarization with appropriate software, our print-on-demand service will become even more efficient. In addition, this utilization of new technology has made it possible for us to reduce the space needed for our operation and to provide additional work area for our audit staff.

We also assessed the items we carried in our closed stockroom. After evaluating the need for these items, we relocated the majority of commonly used supplies to the open stockroom to allow for greater accessibility for all staff. We also revamped our ordering and stocking processes to reduce redundancy and to simplify the entire process.

Clerical Support

The major function of Clerical Support is to type and format submitted audit reports for processing and issuance. Clerical Support is also responsible for distributing audit reports, manuals, and letters; operating the telephone switchboard and reception desk; and maintaining various internal records.

Clerical Support employees are cross-trained and, because of the local area network, can perform their duties at any of several office work stations. Employee cross-training and full utilization of the network have enabled us to minimize our staffing needs.

Cross-training and automation have enabled the OAG to minimize staffing needs.

Payroll/Management Information System (MIS) Input Unit

The major function of the Payroll/MIS Input Unit is to process payroll transactions for all OAG employees. The Unit enters employee time sheets, processes biweekly time and attendance reports, and enters time and attendance into the Data Collection and Distribution System (DCDS).

The OAG requires that all staff hours be properly accounted for. To assist in this effort, the Payroll/MIS Input Unit enters budget hours and direct hours for all OAG activities. The Unit is also responsible for maintaining audit report related information for inclusion on our Internet web site.

Office of the Auditor General Reports and Other Information

An audit report and its supporting evidence is considered confidential until its official release to the Legislature, general public, and the press. Once a report has been released, it is public information and, as such, is available upon request.

Reports or information about our office can be obtained as follows:

- **By written request** directed to:

Office of the Auditor General
Victor Center, Sixth Floor
201 N. Washington Square
Lansing, Michigan 48913

- **By telephone**, call us at (517) 334-8050
- **By FAX** at (517) 334-8079. Please include your name, address, and the specific reports or other information wanted in your request
- **On the Internet** at *<http://www.state.mi.us/audgen>*

**AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 1999-2000**

- * Special report.
- ** Letter report issued to the Department's director or the Authority's chairperson.
- R Audit required by law.
- N/A Not applicable.

<u>Project Number</u>	<u>Report Title</u>	<u>Audit Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
AGRICULTURE, DEPARTMENT OF				
79-100-99	Department of Agriculture - R	Single	7	1
79-120-99	Environmental Stewardship, Marketing and Communications, and Pesticide and Plant Pest Management Divisions and the Office of Agriculture Development <i>The Department's mission is to promote and protect the agricultural interests of the people of the State of Michigan.</i>	Performance	14	5
79-305-99	Michigan State Fair and Exposition Center - R <i>The Center conducts an annual State Fair and other exhibits or events for promoting the State's economy.</i>	Financial	3	0
ATTORNEY GENERAL, DEPARTMENT OF				
11-100-99	Department of Attorney General - R	Single	0	0
CAREER DEVELOPMENT, MICHIGAN DEPARTMENT OF				
45-242-98	Michigan Career and Technical Institute <i>The Institute is a residential training program to prepare Michigan citizens with disabilities for employment.</i>	Performance	6	0
CIVIL RIGHTS, DEPARTMENT OF				
15-100-99	Department of Civil Rights - R	Single	2	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 1999-2000

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
CIVIL SERVICE, DEPARTMENT OF				
19-210-98	Bureau of Human Resource Services <i>The Bureau provides services to help appointing authorities acquire and manage the State's work force.</i>	Performance	5	1
COMMUNITY COLLEGES				
32-200-99	Kalamazoo Valley Community College - R <i>The College is a public two-year institution of higher education offering academic, vocational-technical, and continuing education programs.</i>	Performance	5	0
32-500-00	Selected Community Colleges' Reporting of Activities Classification Structure Data - R <i>Community colleges annually report certain information to the Department of Education that is used to determine their State aid.</i>	Performance	5	0
COMMUNITY HEALTH, DEPARTMENT OF				
39-408-99	Barry County Community Mental Health Services, an agency under contract with the Department of Community Health <i>The Agency provides a range of mental health services to the residents of Barry County.</i>	Performance	4	0
39-420-99	Central Michigan Community Mental Health Services, an agency under contract with the Department of Community Health <i>The Agency provides a range of mental health services to the residents of Clare, Isabella, Mecosta, and Osceola Counties.</i>	Performance	8	0
39-496-99	Community Mental Services of St. Joseph County, an agency under contract with the Department of Community Health <i>The Agency provides a range of mental health services to the residents of St. Joseph County.</i>	Performance	4	0
39-596-98	Medicaid Management Information System <i>The System is the automated management and control system for Medicaid payments.</i>	Performance and Financial	9	1
39-639-98	African American Male Initiative <i>The Initiative was created to combat the alarming health status of Michigan's African American male citizens.</i>	Performance	3	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 1999-2000

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
CONSUMER AND INDUSTRY SERVICES, DEPARTMENT OF				
63-111-99	Property Development and Manufactured Housing Divisions; Corporation, Securities, and Land Development Bureau <i>The Bureau has the dual responsibility of encouraging business growth in Michigan and protecting investors and consumers.</i>	Performance	13	0
63-115-99	Michigan Insurance Bureau <i>Subsequent to our audit, the Bureau, which regulated the insurance industry, became part of the Office of Financial and Insurance Services within the Department.</i>	Performance	7	0
63-160-00	Michigan Liquor Control Commission <i>The Commission has primary responsibility for the Liquor Purchase Revolving Fund, which accounts for the purchase, distribution, and sale of alcoholic liquor.</i>	Financial	3	0
63-170-99	Michigan Public Service Commission <i>The Commission oversees Michigan's regulated electric, gas, and telephone utilities and oil and gas pipelines.</i>	Performance	5	1
63-230-99	Michigan Council for Arts and Cultural Affairs - R <i>The Council's mission is to encourage, develop, and facilitate an enriched environment of artistic, creative, and cultural activity in Michigan.</i>	Performance	7	0
79-305-98	Michigan State Fair and Exposition Center - R <i>The Center conducts an annual State Fair and other exhibits or events for promoting all phases of the State's economy.</i>	Financial	1	0
CORRECTIONS, DEPARTMENT OF				
47-222-99	Oaks Correctional Facility, Camp Pugsley, and Camp Sauble <i>The Facility, located in Manistee County, and the Camps, located in Grand Traverse and Mason Counties, respectively, share administrative staff and functions.</i>	Performance	6	0
47-232-00	Ryan Correctional Facility <i>The Facility, located in Wayne County, houses medium security and close security male prisoners.</i>	Performance	8	0

AUDIT, SPECIAL, AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 1999-2000

Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
47-239-99	G. Robert Cotton Correctional Facility and Camp Waterloo <i>The Facility, located in Jackson County, and the Camp, located in Washtenaw County, share administrative staff and functions.</i>	Performance	8	0
47-275-99	Thumb Correctional Facility and Camp Tuscola <i>The Facility, located in Lapeer County, and the Camp, located in Tuscola County, are separate facilities that share administrative staff and functions.</i>	Performance	5	1
47-277-99	Standish Maximum Security Correctional Facility and Camp Lehman <i>The Facility, located in Arenac County, and the Camp, located in Crawford County, share administrative staff and functions.</i>	Performance	11	0
47-300-98	Bureau of Health Care Services <i>The Bureau coordinates medical, dental, and psychological services provided to prisoners.</i>	Performance	10	0
47-360-95F	* Follow-Up Review of Substance Abuse Services <i>Substance Abuse Services develops and implements substance abuse programs for persons under departmental jurisdiction and develops and monitors the departmental drug testing program.</i>	Performance	N/A	N/A
47-615-98	*Parole and Probation Services, Field Operations Administration <i>The Administration is responsible for supervising offenders who are released to parole and probation.</i>	Performance	2	0
EDUCATION, DEPARTMENT OF				
31-100-98	Department of Education - R	Single	13	15
31-221-99	Michigan Schools for the Deaf and Blind <i>The Schools are located together on an 85-acre campus in Flint. Each school provides its own distinct programs and services.</i>	Performance	10	0
31-250-98	Bilingual, Migrant, and Selected King-Chavez-Parks Initiative Programs <i>The Department funds Bilingual and Migrant Programs in school districts. The Legislature funds public universities that participate in the King-Chavez-Parks Initiative.</i>	Performance	15	0

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Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
ENVIRONMENTAL QUALITY, DEPARTMENT OF				
76-100-98	Department of Environmental Quality - R	Single	11	0
76-143-99	*Fee Adequacy and Delegated Authority Within the Air Quality Division - R <i>Title V of the Clean Air Act Amendments of 1990 set up a comprehensive permitting system that all states are required to implement.</i>	Performance	N/A	N/A
EXECUTIVE OFFICE				
01-100-99	Executive Office <i>The Executive Office includes the Governor and Lieutenant Governor and their staffs.</i>	Financial	0	0
FAMILY INDEPENDENCE AGENCY				
43-101-99	Child Support Accrual Methodology <i>The child support accrual is a fiscal year-end estimate of material accounts receivable and payable related to the child support collections retained by the State.</i>	Financial	2	0
43-300-98	Child Development and Care Program <i>The Program provides financial assistance to eligible families for child care services.</i>	Performance and Financial	12	1
JUDICIAL				
05-150-99	State-Funded Judicial Operations - R	Single	7	0
LEGISLATURE				
03-118-99	Library of Michigan - R	Single	0	0
03-140-99	Michigan Legislative Retirement System - R <i>The System is funded by State appropriations, participant contributions, circuit and district court fees, and income from investments.</i>	Financial	2	0
03-150-99	Senate Fiscal Agency <i>The Agency provides nonpartisan assistance to the Senate in State fiscal issues and in proposed legislation.</i>	Performance	0	0

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Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
MANAGEMENT AND BUDGET, DEPARTMENT OF				
07-010-99	*State of Michigan Comprehensive Annual Financial Report (SOMCAFR) - Principal (Fiscal Year 1997-98) - R	Financial	6	4
07-011-00	** SOMCAFR - Central Staff (FY 1998-99)	Financial	N/A	N/A
07-012-00	** SOMCAFR - Field Staff (FY 1998-99)	Financial	N/A	N/A
07-030-00	**Review of Constitutional Revenue Cap (Fiscal Year 1998-99) - R	Financial	N/A	N/A
07-031-00	**Reveiw of Section 30 Expenditure Limitation Report (Fiscal Year 1998-99) - R	Financial	N/A	N/A
07-100-99	Department of Management and Budget - R	Single	4	0
07-136-98	Vehicle and Travel Services <i>Vehicle and Travel Services acquires and operates vehicles used by State agencies, colleges, and universities.</i>	Performance	5	0
07-138-99	Office of Support Services <i>The Office consists of the Business Support Services Division; Mail, Delivery, and Materials Management Division; Records and Forms Management Division; Print and Graphic Services; and Consolidated Print Center.</i>	Performance	6	0
07-401-00	Michigan Strategic Fund <i>The Fund was created to help diversify the economy of the State and to provide for economic development.</i>	Financial	1	0
07-402-00	Michigan Economic Development Corporation <i>The Corporation is a separate legal entity whose purpose is to stimulate, coordinate, and advance economic development in the State.</i>	Financial	1	0
07-629-00	* Use of Transportation-Related Funding - R <i>Funding was provided to the Departments of State, State Police, Treasury, Management and Budget, Civil Service, Attorney General, Environmental Quality, Natural Resources, and Transportation and the Office of the Auditor General.</i>	Financial	2	3
07-700-99	Statewide Federal Indirect Cost Recovery and Usage <i>Federal regulations allow State departments to recover indirect costs from the federal grant funds received.</i>	Performance	4	0

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Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
MICHIGAN JOBS COMMISSION				
45-100-99	Michigan Jobs Commission - R	Single	9	3
45-604-99	Michigan Strategic Fund - R	Single	0	0
MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF				
51-100-00	Department of Military and Veterans Affairs - R	Single	1	0
51-160-99	D.J. Jacobetti Home for Veterans <i>The Home, located in Marquette, provides domiciliary and nursing care to aged and disabled veterans and their widows, widowers, spouses, former spouses, and parents.</i>	Performance	6	1
51-170-99	Grand Rapids Home for Veterans <i>The Home provides domiciliary and nursing care to aged and disabled veterans and their widows, widowers, spouses, former spouses, and parents.</i>	Performance	8	1
MULTIPLE DEPARTMENT AUDITS				
39-700-98	Home Health Care; Department of Community Health, Department of Consumer and Industry Services, and Family Independence Agency <i>Responsibility for the Medicaid home health care programs in Michigan is shared by these three departments.</i>	Performance	9	0
43-264-94F	* Follow-Up Review of the Adult Foster Care Program <i>The Program provides shelter, food, and protective oversight to dependent adults who do not live in their own homes.</i>	Performance	N/A	N/A
NATURAL RESOURCES, DEPARTMENT OF				
75-124-99	Mackinac Island State Park Commission <i>The Commission operates three historic parks: Mackinac Island State Park, Fort Michilimackinac State Park, and Mill Creek State Historic Site.</i>	Performance	0	0

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Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
75-130-99	Michigan Natural Resources Magazine <i>The Magazine is no longer being published.</i>	Performance	1	0
75-150-99	Fisheries Division <i>The Division is composed of four units: fish production, research and assessment, program services, and field operations.</i>	Performance	0	0
75-609-00L	* Cooperative Resource Management Initiative <i>The Initiative was established as a partnership among the Department of Agriculture, the Department of Natural Resources, and local conservation districts.</i>		N/A	N/A
STATE, DEPARTMENT OF				
23-100-99	Department of State - R	Single	0	0
23-231-99	Michigan Historical Center <i>The Center is responsible for preserving historical, governmental, and public records.</i>	Performance	8	2
STATE POLICE, MICHIGAN DEPARTMENT OF				
55-108-99	Automobile Theft Prevention Authority <i>The Authority was created to reduce automobile theft.</i>	Performance	1	1
55-605-99	Legal Incapacitation, Involuntary Hospitalization or Treatment, and Not-Guilty-by-Reason-of-Insanity Court Order Information Within the Law Enforcement Information Network <i>The Network provides authorized agencies with a Statewide computer system for criminal justice administration.</i>	Performance	1	0
TRANSPORTATION, MICHIGAN DEPARTMENT OF				
59-100-99	Michigan Department of Transportation - R	Single	7	1
59-164-95F	* Materials and Technology Division, Bureau of Highways <i>The Division develops highway construction specifications, samples and tests materials, conducts research and investigations, and provides Statewide consulting services.</i>	Performance	N/A	N/A

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Project Number	Report Title	Audit Type	Recommendations	
			New	Repeated
59-590-99	Automated Information Systems <i>The Systems are used to manage various phases of road and bridge construction projects from planning and design to construction and final contractor payment.</i>	Performance and Financial	28	0
TREASURY, DEPARTMENT OF				
27-110-98	Legal and Hearings Division <i>The Division conducts informal conferences with taxpayers, provides research and training, and performs other duties.</i>	Performance	3	3
27-115-00	Private Colleges' and Universities' Enrollments - R <i>The Michigan Higher Education Assistance Authority, through the Department of Treasury, administers four programs for private college and university students.</i>	Performance	0	0
27-130-99	Unclaimed Property Division <i>The Division preserves abandoned property in trust and returns it when claimed by the owners or their heirs.</i>	Performance	13	0
27-252-00M	* State Treasurer's Annual Report - R <i>The State Treasurer is responsible for investing, managing, accounting for, and safekeeping assets of several retirement systems, various trust funds, and the State's Common Cash pool.</i>	Financial	1	0
27-252-000	**State Treasurer's Annual Report - R	Financial	N/A	N/A
27-590-99	Automated Information Systems <i>The Systems make possible the electronic filing of personal income tax returns and the reconciliation of State accounting records with bank records.</i>	Performance	10	0
UNIVERSITIES				
33-130-99	Grand Valley State University <i>The University enrolled 17,452 students for fall semester 1999.</i>	Performance	12	0
33-240-99	Western Michigan University <i>During the 1998-99 academic year, the University enrolled 26,575 students.</i>	Performance	4	0

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<u>Project Number</u>	<u>Report Title</u>	<u>Audit Type</u>	<u>Recommendations</u>	
			<u>New</u>	<u>Repeated</u>
33-300-00	Selected State Universities' Reporting of Enrollment and Other Higher Education Institutional Data Inventory (HEIDI) Data - R <i>The Legislature established HEIDI to capture enrollment and other data regarding State universities.</i>	Performance	4	0
33-605-99	Detroit College of Law - Michigan State University Law Alliance <i>Under the terms of a 1995 affiliation, the Detroit College of Law retains its independant status. No State money is to be used to support the College's activities.</i>	Performance	0	0
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