



2012

2012 ANNUAL REPORT

MICHIGAN OFFICE OF THE  
AUDITOR GENERAL

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

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

*- Article IV, Section 53 of the  
Michigan Constitution*

Directory  
(As of September 30, 2012)

Thomas H. McTavish, C.P.A. ....	Auditor General
Scott M. Strong, C.P.A., C.I.A. ....	Deputy Auditor General
Craig M. Murray, C.P.A., C.I.A. ....	Director of Professional Practice
Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E. ....	Chief Information Officer
Paul J. Green, C.P.A., C.I.A., C.I.S.A. ....	Director of Administration
Kelly C. Miller.....	State Relations Officer

Telephone Number: (517) 334-8050

FAX Number: (517) 334-8079

<http://audgen.michigan.gov>

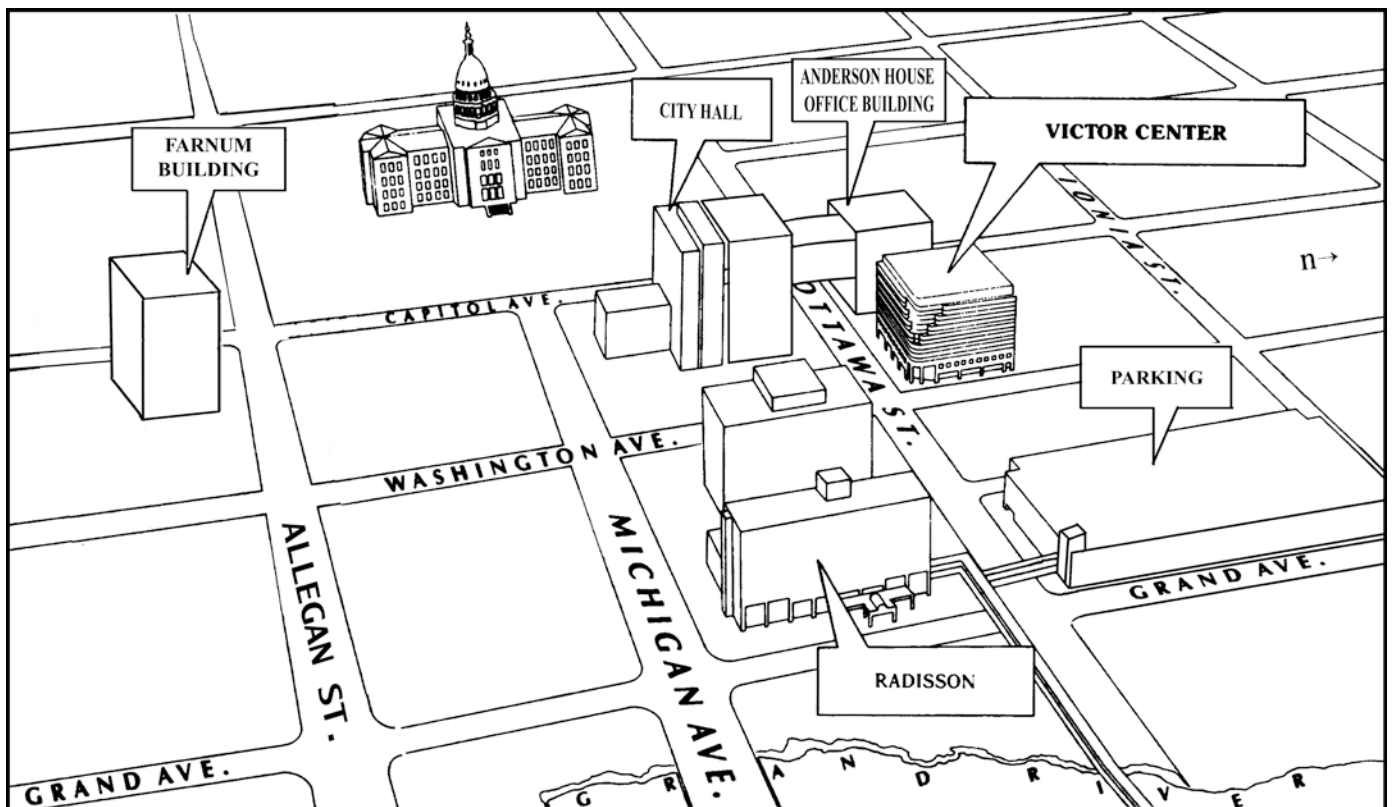
Office of the Auditor General

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

November 21, 2012

The Honorable Rick Snyder, Governor of Michigan  
The Honorable Randy Richardville, Senate Majority Leader  
The Honorable Jase Bolger, Speaker of the House  
The Honorable Gretchen E. Whitmer, Senate Minority Leader  
The Honorable Richard E. Hammel, House Minority Leader  
and  
Members of the 96th Legislature

Ladies and Gentlemen:

This annual report on the operations of the Michigan Office of the Auditor General covers the fiscal years ended September 30, 2011 and September 30, 2012 and is submitted in accordance with Article IV, Section 53 of the Michigan Constitution.

The Office of the Auditor General has the responsibility, as stated in Article IV, Section 53 of the Michigan 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 Michigan 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. *Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review of the Office of the Auditor General's operations noted no impairments affecting our independence in providing auditing and other attestation services.

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 continues to increase its use of information technology to manage and control its programs and resources, the Office of the Auditor General continues to maintain its leading edge in the use of information technology. We provide our staff with the appropriate technology and resources to enable them to fulfill their assignments and to ensure the successful achievement of our mission.

We also continue to use the State's high-speed network to communicate to our audit staff on assignment at the various State agencies. This communication link permits our staff to store automated information on our servers, to send and receive e-mail, and to access the Internet for research purposes. It also permits us to quickly update computer virus software and computer operating system software to secure our automated information.

In addition, our Web site continues to be an effective means to make our audit reports available to the Legislature and the general public. Visitors to our Web site can easily search for and retrieve audit reports that contain specific points of interest. Also, visitors can sign up to receive an electronic copy of our audit report summaries as we add them to our Web site.

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.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

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





# National State Auditors Association

October 19, 2012

Thomas H. McTavish, CPA  
Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

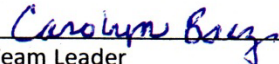
Dear Mr. McTavish:

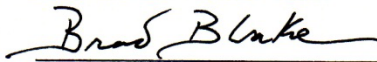
We have reviewed the system of quality control of the State of Michigan, Office of the Auditor General (the office) in effect for the period October 1, 2011, through September 30, 2012. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, inherent limitations there are in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Michigan, Office of the Auditor General in effect for the period October 1, 2011, through September 30, 2012 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

  
Team Leader  
National State Auditors Association  
External Peer Review Team

  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

The Office of the Auditor General, established by the Michigan Constitution within the legislative branch of State government, is responsible for conducting independent 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 and efficiency 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 essential support services.

## **Audit Activities**

The Office of the Auditor General completed 130 audits during fiscal years 2010-11 and 2011-12 and contracted for 6 and 9 additional audits during fiscal years 2010-11 and 2011-12, respectively. Our audit reports contained 522 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. In fiscal years 2010-11 and 2011-12, our audits identified potential savings to the State of over \$236 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.

### Performance Audits

Performance audits are conducted on a priority basis related to the potential for improving State government operations. Approximately 34% of the Bureau's direct audit hours were used for performance audits during fiscal years 2010-11 and 2011-12. Our performance audits resulted in numerous recommendations for further improving the programs audited. Following are highlights from some of our performance audit reports:

- In our audit of the Bureau of Elections (BOE), Department of State, we determined that BOE, in conjunction with local clerks, should strengthen control procedures to prevent, detect, and correct instances in which ineligible voters are recorded in the Qualified Voter File (QVF) as having voted. Our



review of the QVF voter history file disclosed that 1,375 unique deceased individuals were recorded as having voted a total of 1,381 times during the audit period (October 1, 2008 through June 9, 2011). Of the 1,381 recorded votes, 1,236 (90%) were cast as absentee ballots and 145 (10%) were in-person votes.

- In our audit of the Business Application Modernization (BAM) Project, Department of State (DOS) and Department of Technology, Management, and Budget (DTMB), we identified 12 findings, including 6 that were classified as material conditions. The audit report disclosed that DOS and DTMB's efforts to provide oversight of the development of BAM were not effective. DOS and DTMB should enforce contract provisions that were designed to protect the State and to compensate it for unsatisfactory contractor performance.
- In our audit of the Collection of Delinquent Unemployment Taxes and Reimbursements, Unemployment Insurance Agency (UIA), Department of Licensing and Regulatory Affairs, we determined that UIA's Collections Unit and Tax Enforcement Unit did not initiate sufficient and timely efforts to collect delinquent State Unemployment Tax Act taxes from contributing employers.
- In our audit of Pharmaceutical Costs, Department of Corrections (DOC), we determined that DOC, in conjunction with the Department of Community Health, had not timely implemented measures to contain the prescribing of high-cost atypical antipsychotic medications. As a result, DOC's pharmaceutical costs for atypical antipsychotic medications far exceed the levels reported for prison populations in other states and significantly impact DOC's overall pharmaceutical costs. We estimated annualized potential savings from \$852,000 to \$8.5 million.

#### SOMCAFR Audit

Approximately 14% of our direct audit hours were used for our audit of the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for the fiscal years ended September 30, 2010 and September 30, 2011. Internal control weaknesses reported included:

- The Department of Community Health (DCH) did not have internal control in place to ensure that the effect of known Community Health Automated Medicaid Processing System (CHAMPS) defects were reviewed and included in the Medicaid accrual as necessary; to ensure that historical claims data was accurately converted from the Medicaid Management Information System (MMIS) data warehouse to the new CHAMPS data warehouse; and to prevent or detect and correct payment errors made through CHAMPS.

- DCH and the Office of Financial Management (OFM), within the Department of Technology, Management, and Budget, did not properly estimate the payable and receivable for the full cost school based services component of the Medicaid accrual; the long-term care Medicaid Interim Payment Program reconciliations component of the Medicaid accrual; and the inpatient hospital capital cost component of the Medicaid accrual.
- The Department of Treasury and OFM did not properly calculate and record the full accrual tax entries and the liability related to unprocessed Michigan Business Tax returns claiming a refund.

### Single Audits

The Single Audit Act requires state and local governments receiving \$500,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit, including an assessment of the entity's compliance with federal program requirements. In accordance with Michigan statute (Act 251, P.A. 1985), the Office of the Auditor General audits approximately one-half of the applicable departments and agencies each year on a biennial audit cycle. Approximately 41% of our direct audit hours were used for single audits in fiscal years 2010-11 and 2011-12.

In fiscal years 2010-11 and 2011-12, we conducted 22 single audits and reported total net questioned costs of \$440 million. Significant findings are summarized by department starting on page 29 of this report.

### **Human Resources**

During fiscal year 2011-12, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 126-member professional audit staff included 59 certified public accountants, 3 certified internal auditors, and 11 certified information systems auditors. Staff members actively participated as officers, board members, and committee members of national, State, and local accounting and auditing organizations.

### **Conclusion**

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

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## Table of Contents

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	<u>Page</u>
Directory .....	i
Letter of Transmittal .....	ii
National State Auditors Association Quality Control Review Letter .....	v
Report Summary .....	vi
 Auditors General of Michigan - Historical Listing .....	 2
 Mission and Overview .....	 3
Mission .....	3
Responsibility .....	3
Organization and Operation of the OAG .....	4
Communication and State Relationships .....	5
Continuous Quality Improvement Efforts .....	5
Organizational Structure .....	6
Office of the Auditor General Employees .....	7
 Office of the Auditor General Reports .....	 10
 Audit Operations .....	 16
Performance Audits .....	17
Financial Audits .....	25
SOMCAFR Audit .....	25
Single Audits .....	28
Other Financial Audits .....	33
Legislative Requests .....	35
National Awards .....	36
 Support Services .....	 39
Office of Professional Practice .....	39
Office of Information Technology .....	41
Office of Administration .....	42
 Audit and Letter Reports Completed During Fiscal Year 2010-11 .....	 47
Audit and Letter Reports Completed During Fiscal Year 2011-12 .....	75
 Glossary.....	 95

**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

## **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.

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

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## **Responsibility**

The Michigan Constitution established the OAG within the legislative branch of State government. The OAG has the responsibility, as stated in Article IV, Section 53 of the Michigan 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 managing of State funds and resources. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness and efficiency in State government. OAG audit reports provide continuous information to assist the Legislature in its oversight of approximately 80 individual State funds and annual expenses of approximately \$55 billion. In addition, OAG audit reports not only provide department administrators with an independent and objective evaluation of their operations but also provide citizens with a measure of accountability.

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***... to assist the Legislature in its oversight of approximately 80 individual State funds and annual expenses of approximately \$55 billion.***

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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.

The Auditor General has appointed Scott M. Strong as Deputy Auditor General. Mr. Strong also serves as the Director of Audit Operations and acts as the Auditor General's principal aide in carrying out the management responsibilities and audit activities of the OAG.

The OAG is organizationally divided into four areas of responsibility:

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

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- The Bureau of Audit Operations is responsible for conducting independent 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 all OAG networks and information systems. The Office also provides specialized data extraction/analysis and computer hardware and software support and training to all OAG staff.
- The Office of Administration is responsible for human resource management; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

A chart depicting this organizational structure is presented on page 6.

### **Communication and State Relationships**

The OAG is committed to establishing and maintaining communication with all three branches of State government, as well as other entities subject to oversight by the OAG, which includes universities and community colleges.

OAG audit reports are the formal, written, and primary means of communicating the results of audit efforts. In addition to the reports, the OAG also focuses on communication and maintaining good working relationships before and after the issuance of audit reports. The OAG has established processes to communicate its audit plans to auditees and the Legislature, to issue periodic status reports to the House and Senate leadership, to issue quarterly summaries of audit reports, and to provide briefings and testimony before legislative committees. In accordance with the Michigan Constitution, the OAG also issues an annual report on the operations of the OAG to the Governor, the legislative leaders, and each member of the Legislature.

To achieve the widest distribution of its audit efforts, the OAG posts copies of its audit reports, and a copy of the annual report, to its Web site at <<http://audgen.michigan.gov>>.

Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal agencies, the judicial branch, State departments, and universities and community colleges.

### **Continuous Quality Improvement Efforts**

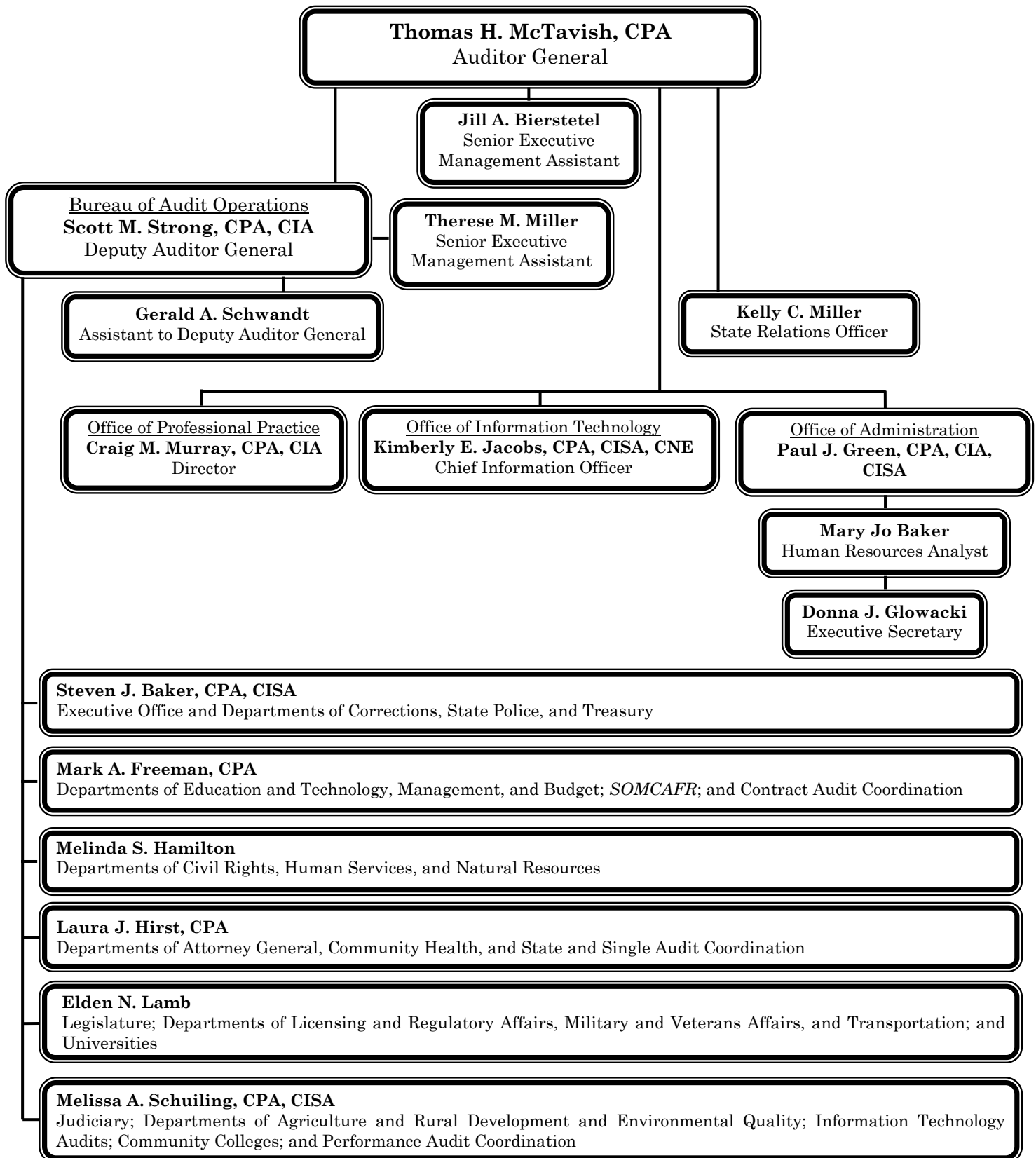
The OAG's continuous quality improvement initiatives assist in developing quality improvement goals to focus efforts on providing timely and relevant audit services and reports. Measures to monitor progress in meeting these goals are also developed. Each of the organizational areas within the OAG has developed improvement goals and objectives and performance measurement indicators. The OAG is committed to its continuous quality initiatives as it strives for further improvements in the future.

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*Mission and Overview*  
(As of September 30, 2012)

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**Organizational Structure**





**Office of the Auditor General Employees**

201 N. Washington Square  
Lansing, MI 48913

(517) 334-8050  
Fax (517) 334-8079

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

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

Kelly C. Miller, State Relations Officer

**AUDIT OPERATIONS**

Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General and Director of Audit Operations

Assistant to the Deputy Auditor General  
Gerald A. Schwandt

Audit Division Administrators

Steven J. Baker, C.P.A., C.I.S.A.  
Mark A. Freeman, C.P.A.  
Melinda S. Hamilton

Laura J. Hirst, C.P.A.  
Elden N. Lamb  
Melissa A. Schuiling, C.P.A., C.I.S.A.

Audit Managers

Yvonne L. Benn, C.P.A.  
Heather A. Boyd, C.P.A.  
Shelly M. Fanson, C.P.A., C.I.S.A.

Mary Jo Koschay, C.P.A.  
Steven R. Koschay, C.P.A.  
Lisa L. Mazure, C.P.A.

Principal Audit Supervisors

Cheryl A. Baker, C.P.A.  
Leah M. Decker, C.P.A.  
Michele M. Elms, C.P.A.  
Scot E. Hazel  
Elmer R. Hess Jr.

Mary L. Lowe, C.P.A.  
Kathy J. Schroeder, C.P.A., C.I.S.A.  
Carri A. Simon, C.P.A.  
Michael J. Ventura, C.P.A.  
Amy J. Zimmerman, C.P.A.

Senior Audit Supervisors

Anthony A. Alvord, C.P.A.  
Michael T. Gardner, C.P.A.  
Shawna M. Hessling  
Corrie A. Jameson, C.P.A.  
Daniel T. Jaroche, C.P.A.  
Ivy M. Jaroche  
Tracy L. Jelneck, C.P.A.

Charles R. Kern II, C.I.S.A.  
Lori M. Leaming, C.P.A.  
Justin C. Londo  
Allison M. Mikulec, C.P.A.  
Frank A. Natschke, C.P.A.  
Duane L. Smiley, C.P.A.

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*Mission and Overview*  
*(As of September 30, 2012)*

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Audit Supervisors

Ryan D. Austin  
Karen J. Bosworth, C.P.A.  
Brian T. Buckner  
Courtney M. Carroll, C.P.A.  
Aaron S. David  
Adam D. Feldpausch, C.I.S.A.

Michael J. Foerster  
Robin E. Garity, C.P.A.  
Lori S. Mullins, C.I.S.A.  
Silhouette Todd, C.P.A.  
Rod A. Wlock

Senior Auditors

Jessica C. Armstrong  
James A. Berridge  
Jill E. Gard  
Julius Hampton Jr.  
Brent A. Johnson  
Lisa R. Kreiter  
Steven J. Meyer, C.P.A.

Susan D. Morway  
Rebecca J. Murray, C.P.A.  
Michele L. Novak, C.P.A.  
Angela M. Shinaver  
Francis W. Thelen  
Julie L. Trierweiler, C.P.A.  
Laura M. Ventura

Staff Auditors

Kevin C. Baker, C.P.A.  
Kayla M. Bengel  
Derek R. Childs  
Nicole M. Ceccacci  
Shannon A. Comer, C.P.A.  
Sara A. Crawford  
Robert I. Creighton  
Diane L. DeLuca, C.P.A.  
Bethany M. Doyle  
Albert N. Dupuy II  
Keith W. Edwards  
Joshua R. Endsley, C.P.A.  
Matthew L. Engels  
Michael T. Gruennert  
Christopher C. Haines  
Lisa S. Harral, C.P.A.  
Shannah M. Havens, C.P.A.  
Caitlin J. Hengesbach  
Christopher J. Hundt, C.P.A.  
Christopher A. Kingsley  
Nathan R. Klein  
Jessica M. Kovl  
Bradley E. LaBram, C.P.A.

Erin M. Lynch  
Brandon M. McAndrew, C.P.A.  
Adam M. McCausland  
Ryan G. McElhone  
Dennis M. McMillan, C.P.A.  
Kelly D. Miller  
Larry B. Miller  
Chad J. Monger  
Joshua J. Nelson  
Christopher C. Oosterhoff  
Pamela J. Platter  
Shawn M. Prince  
Douglas R. Sawicki  
Marc R. Sawyers  
Jordan M. Schafer  
Mary A. Seekins  
Brittney E. Smith  
Jason A. Speirs  
Nancy A. Svarc  
Audra C. Turner, C.P.A.  
Erin J. Walczak  
Trina M. Witgen  
Melanie R. Zimmerman

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*Mission and Overview*  
(As of September 30, 2012)

**PROFESSIONAL PRACTICE**

Craig M. Murray, C.P.A., C.I.A., Director

Audit Report Review

Julie E.B. Chamberlain, C.P.A.,  
Managing Editor  
Kelly L. Bengel, C.P.A.  
Amy M. Sands

Quality Assurance

Alvin D. Bonds  
MaryKay Walker  
Mary A. Waterhouse, C.P.A.

Research and Professional Standards

Ronald A. Yarsevich, C.P.A.

**INFORMATION TECHNOLOGY**

Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E., Chief Information Officer

Information Systems Data Analysis

Andrew A. Mitchell, Supervisor  
Dorothy E. Smith, C.P.A., C.I.S.A.,  
Supervisor  
Kevin D. Bashore

David E. Batz, C.P.A., C.I.S.A.  
Brian C. Hovey, C.P.A.  
Mark A. Lee

Information Systems Network and Computer Support

Jeffrey J. Mikula, C.N.A., Supervisor  
Jason M. Michels, C.N.A., Supervisor

Gabriele E. Brazee  
Patrick D. Keeler, C.N.A., C.X.E.  
Thomas D. Mason, C.N.A.

**ADMINISTRATION**

Paul J. Green, C.P.A., C.I.A., C.I.S.A., Director

Human Resources/Budget

Jackie S. Lawson, C.P.A., Assistant  
Director  
Stephanie S. Roach, Professional  
Development Coordinator and  
Accounting and Budget  
Mary Jo Baker, Human Resources Analyst  
Donna J. Glowacki, Executive Secretary

Office Services

Michael F. Russell, Supervisor  
Rick L. Ettinger  
Timothy S. Baroski  
Travis D. Schafer

Clerical Support

Allison M. Fandel  
Theresa M. Fedewa  
Amanda A. Feldpausch  
Taylor L. Pline  
Jarita E. Qawwee  
D'Andrea L. Vermeesch

## **Types of Audits and Services Performed by the OAG**

### Financial Audits

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***Various types  
of audits  
complement  
each other.***

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- Financial audits are designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include providing special reports for specified elements, accounts, or items of a financial statement and/or financial schedule.
- 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 financial report users, including an entity's federal grantor agencies. 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 provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The OAG also follows up material audit findings from its performance audits to determine whether agencies complied with OAG recommendations.

### Attestation Engagements

Attestation engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. An attestation engagement can cover a broad range of financial or nonfinancial subjects.

## 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 federal Single Audit Act Amendments of 1996 and implementing regulations

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***Professional standards are strictly adhered to.***

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## External Quality Control Review

A six-person National State Auditors Association external quality control review (peer review) team visited our office in October 2012 to perform the triennial peer review of OAG operations as required by *Government Auditing Standards*. The team provided the OAG with an unmodified opinion report on the OAG's system of quality control for the period October 1, 2011 through September 30, 2012. An unmodified opinion means that the peer review team concluded that the OAG's system of quality control was "suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards." This marks the OAG's ninth consecutive "clean" opinion on its system of quality control.

## Independence

*Government Auditing Standards* issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the OAG's independence in providing auditing and other attestation services.

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***Independence standards are followed.***

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## Value of OAG Reports

### To the Legislature

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

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 any member of the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Annually, OAG reports contain hundreds of recommendations that identify opportunities for improving effectiveness and efficiency in State operations and provide information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding. These recommendations have historically identified potential annual financial savings of tens of millions of dollars.

In fiscal years 2010-11 and 2011-12, our audits identified potential savings to the State of over \$236 million.

### 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.

### To Third Parties

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

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.

**To Whom Audit Reports Are Issued**

Audit reports issued by the OAG are typically addressed to the audited entity's chief executive officer and/or to the chair of its governing board or commission. Audit reports are typically forwarded via e-mail.

On the day prior to the official release date of an audit report, e-mail notifications are sent to the following:

- The audited entity's chief executive officer and/or the chair of its governing board or commission.
- House and Senate Quadrant Leadership.
- Relevant House and Senate Standing Committee members.
- Office of the Governor.
- The legislator(s) who requested the audit (if applicable).

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***The audit report  
release process  
ensures broad  
distribution.***

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On the official release date, the report is posted to the OAG Web site and e-mail notifications containing a link to the report are also sent to the following:

- All legislators.
- House and Senate Fiscal Agencies.
- Office of Financial Management, Department of Technology, Management, and Budget.
- All others who have specifically requested a copy of the report being issued.

The OAG does not issue press releases on any audit report. However, a copy of each audit report is sent to the Capitol pressroom and the OAG responds to media inquiries relative to issued reports.

### **OAG Contact With the Legislature**

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

The audit report is the formal written contact that the OAG has with the Legislature. Upon request, the OAG 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.

Periodically, the briefings result in OAG staff testifying at related hearings. Also, the Auditor General or his designee testifies on audit-related activities, as requested by the Legislature.

### **Reaction and Response to an Audit Report**

***Audited agencies must develop a plan to comply with the audit recommendations within 60 days after release of the audit report.***

Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) establish requirements for following up audit findings and recommendations for executive branch departments and subunits. Audited agencies are required to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan. This plan is in addition to the agency preliminary response that is included in each OAG audit report.

Each plan must indicate (1) the audit recommendations the agency complied with, (2) the audit recommendations the agency agrees with and will comply with, and (3) the audit recommendations the agency disagrees with.

When the OAG performs an audit of a university or a 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 OAG, the House and Senate Fiscal Agencies, and the State Budget Director. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Workforce Development Agency. 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 engagement approximately six months after the auditee has indicated compliance. In this way, the OAG can review the extent of compliance with the recommendations and provide users of the audit report with timely information.

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***Material findings and recommendations are routinely followed up approximately six months after the auditee has indicated compliance.***

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### **Subsequent Audits**

The preparation for subsequent audits begins with a preliminary survey, 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.

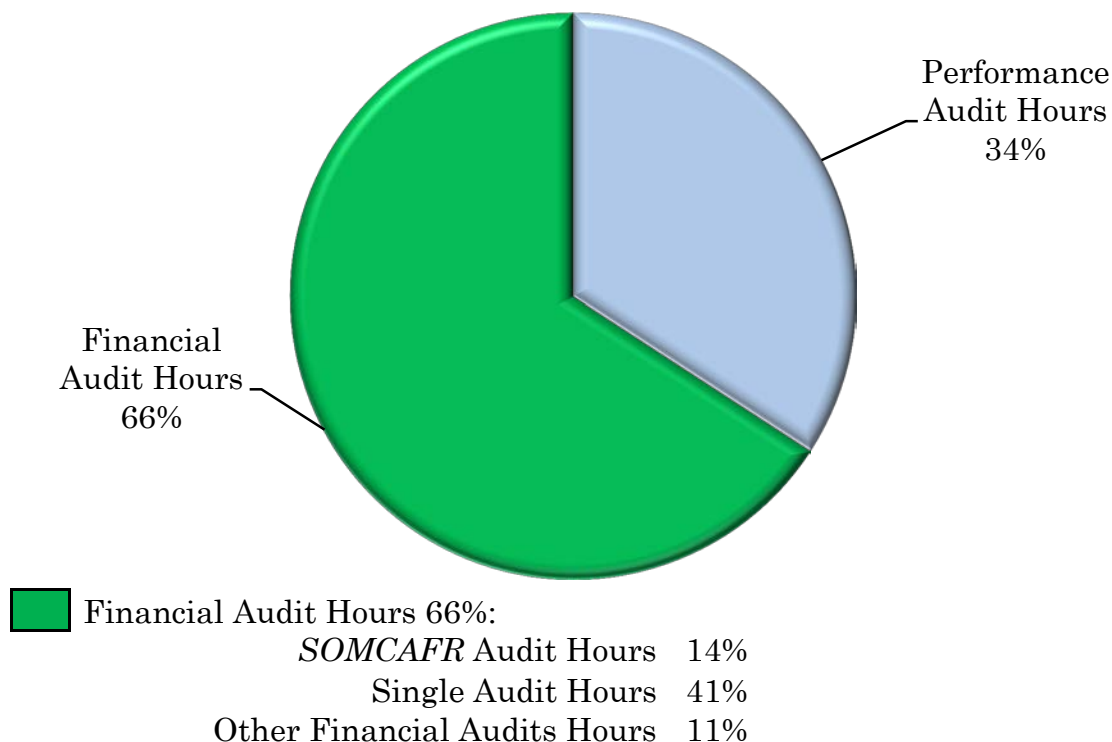
The Bureau of Audit Operations is responsible for financial and performance audits of all State government operations. The Bureau develops an annual audit plan in which audits are scheduled in accordance with a risk-based assessment. The Bureau conducts financial audits to support the OAG's opinion on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

The Bureau completed 130 audits during fiscal years 2010-11 and 2011-12 (see listings starting on page 47). In addition, the Bureau contracted with public accounting firms for 6 and 9 financial audits, typically annual audits of some State authorities, in fiscal years 2010-11 and 2011-12, respectively.

The following chart shows the distribution of direct audit hours used for the different types of audits in fiscal years 2010-11 and 2011-12:

**DISTRIBUTION OF DIRECT AUDIT HOURS**

**FISCAL YEARS 2010-11 AND 2011-12**



## **Performance Audits**

Performance audits are conducted on a priority basis related to the potential for improving State government operations. The Bureau's primary objective for conducting performance audits is to improve the effectiveness and efficiency of State government operations. Effectiveness is producing the outcome desired by the citizens of Michigan and mandated by the Legislature, and efficiency is a measure of useful services delivered compared with the resources applied. Approximately 34% of the Bureau's direct audit hours were used for performance audits in fiscal years 2010-11 and 2011-12.

Our audits resulted in numerous recommendations for further improving the programs audited. Following are highlights from some of our performance audit reports:

### Brownfield Redevelopment Financing Program, Department of Environmental Quality, Michigan Economic Growth Authority, and Department of Treasury (Fiscal Year 2010-11)

The State Tax Commission did not sufficiently collect, compile, or analyze financial status reports of the brownfield redevelopment authorities and did not submit annual summary reports to the Legislature.

### Bureau of Elections (BOE), Department of State (Fiscal Year 2011-12)

BOE, in conjunction with local clerks, should strengthen control procedures to prevent, detect, and correct instances in which ineligible voters are recorded in the Qualified Voter File (QVF) as having voted. Our review disclosed that 48 unique individuals recorded in the QVF voter history file as having voted were also recorded as incarcerated in the Department of Correction's (DOC's) Offender Management Network Information (OMNI) database during that same time frame. QVF showed these incarcerated individuals as having voted 52 times during the audit period (October 1, 2008 through June 9, 2011), of which 8 (15%) were recorded as absentee ballots and 44 (85%) were in-person votes. Our review of the QVF voter history file also disclosed that 1,375 unique deceased individuals were recorded as having voted a total of 1,381 times during the audit period. Of the 1,381 recorded votes, 1,236 (90%) were cast as absentee ballots and 145 (10%) were in-person votes.

### Bureau of Workforce Transformation's (BWT's) Oversight of the Michigan Works! Agencies (MWAs), Workforce Development Agency, Michigan Strategic Fund (Fiscal Year 2010-11)

BWT needs to establish a comprehensive continuous quality improvement process to evaluate the successes and shortcomings of its workforce development programs. As a result, BWT could not assess the worthiness of programs and perform qualitative analyses necessary for making informed decisions regarding program improvements.

Business Application Modernization (BAM) Project, Department of State (DOS) and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2011-12)  
This report contained 12 findings, including 6 that were classified as material conditions, and 2 observations. DOS did not ensure that all payments to its development contractor were made in compliance with contract terms or BAM project procedures. As a result, DOS had authorized payments to the development contractor for \$27.6 million (78%) of its current development contract, even though only a small portion of BAM functionality had been implemented.

Also, DOS and DTMB should enforce contract provisions that were designed to protect the State and to compensate it for unsatisfactory contractor performance. We calculated that through July 2011 the development contractor owed the State liquidated damages of \$12.5 million. In addition, DTMB did not ensure that the procurement process for the BAM project development contract and the technical project manager contract was competitive and unbiased.

Collection of Delinquent Unemployment Taxes and Reimbursements, Unemployment Insurance Agency (UIA), Department of Licensing and Regulatory Affairs (Fiscal Year 2011-12)

UIA's Collections Unit and Tax Enforcement Unit did not initiate sufficient and timely efforts to collect delinquent State Unemployment Tax Act (SUTA) taxes from contributing employers. As a result, UIA likely missed opportunities for significant collections of delinquent SUTA taxes.

Also, UIA did not use available data and data analysis resources to proactively identify and investigate employers potentially involved in SUTA dumping, potentially misclassifying some or all of their employees as independent contractors, in bankruptcy, or not registering with UIA. As a result, it is likely that UIA limited its SUTA tax collections and its operational efficiency, which negatively impacted the solvency of the Unemployment Compensation Fund.

In addition, UIA's Tax Office did not timely initiate actions affecting contributing employers' SUTA tax accounts. Further, UIA's Tax Office did not ensure that UIA's master employer files contained up-to-date information. These conditions likely resulted in substantial losses of SUTA tax collections and in significant processing inefficiencies.

Community Development and Revitalization Programs, Michigan State Housing Development Authority (MSHDA), Department of Treasury (Fiscal Year 2010-11)

MSHDA needs to seek an Attorney General Opinion regarding MSHDA's authority to fund activities that are not related to MSHDA-financed housing. Without such opinion, it is unclear whether MSHDA's funding of non-housing related activities is within its statutory authority and responsibilities. MSHDA awarded \$35.0 million in grants and contracts in which some of the funded activities did not appear to be related to MSHDA's basic function.

Also, MSHDA had not established sufficient access and security controls over the MSHDA Activity Tracking Tool (MATT) System. As a result, MSHDA could not ensure that it could prevent or detect errors or irregularities that may be caused by users performing unauthorized duties.

In addition, MSHDA had not implemented sufficient controls over grantee and lender data in the MATT System to prevent unauthorized changes in grantee and lender names and addresses. As a result, MSHDA could not ensure that grant and loan disbursements were mailed to the proper recipients and addresses.

Emergency 9-1-1 Fund, Michigan Department of State Police (MSP) and Department of Treasury (Fiscal Year 2011-12)

MSP and the Department of Treasury should pursue amendatory legislation and other measures necessary to ensure that all service suppliers collect and remit all emergency 9-1-1 service charge revenue. We determined that approximately \$4.7 million and \$7.3 million of emergency 9-1-1 service charge revenue may not have been remitted by service suppliers for fiscal years 2008-09 and 2009-10, respectively.

Family Housing Programs, Michigan State Housing Development Authority (MSHDA), Department of Treasury (Fiscal Year 2010-11)

MSHDA's process for allocation of federal Low Income Housing Tax Credits did not give preference to projects serving the lowest income tenants and projects obligated to serving qualified tenants for the longest period of time. As a result, MSHDA violated both federal and State statutes and disadvantaged some applicants.

Also, MSHDA had not established and exercised effective criminal history screening practices for housing assistance programs. As a result, the criminal backgrounds of tenants with recent violent or drug-related convictions, including backgrounds that disqualified them for housing assistance, were not always identified or considered for applicants and tenants.

In addition, MSHDA was not effective in precluding conflicts of interest or restricting postemployment activities of its employees. As a result, some former MSHDA employees engaged in activities that may have conflicted with their official duties while employed at MSHDA and/or subsequent to their employment with MSHDA.

Follow-Up on Client Eligibility Oversight, Error Identification, and Error Prevention Processes for Selected Public Assistance Programs, Department of Human Services (Fiscal Year 2011-12)

DHS partially complied with the recommendation to develop and implement a process to identify and correct errors for the Family Independence Program (FIP)

and the Child Development and Care (CDC) Program to improve payment accuracy. A material condition still exists because of the eligibility error rates that continued in FIP and the CDC Program.

Follow-Up on Human Service Contracting, Department of Human Services (DHS) (Fiscal Year 2010-11)

DHS did not ensure timely execution of its human services contracts and continued to reimburse contractors for services provided before DHS executed the contracts. In addition, we determined that a significant amount of payments without a contract still existed. DHS established effective management controls over its human service contractor selection process and implemented processes to effectively monitor contractor billings.

Follow-Up on Training and Staff Development, Department of Human Services (Fiscal Year 2011-12)

We concluded that reportable conditions still exist in relation to the continuing education requirements for adult services and juvenile justice specialists, family independence specialists, and eligibility specialists and the development of a comprehensive process to evaluate the effectiveness of DHS training programs for services specialists.

Kalamazoo Psychiatric Hospital (KPH), Department of Community Health (Fiscal Year 2010-11)

KPH needs to improve its monitoring of patient services to help ensure that KPH complies with patient treatment plans, KPH policy, and State law and federal regulations. Improved monitoring of patient services would also help KPH identify and resolve patient service deficiencies on a timely basis and help ensure that it provides services to patients in a safe environment. Also, KPH, in conjunction with DCH, had not established an effective process to ensure that it properly reported, investigated, and responded to complaints relating to KPH's operations.

Michigan Administrative Information Network (MAIN) Security, State Budget Office and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2010-11)

DTMB had not established, and did not ensure that the third party service organization established, effective controls to monitor system activity and identify security violations. Also, the Office of Financial Management and DTMB had not established effective access controls over MAIN operating system, application, and data resources.

Michigan Prisoner ReEntry Initiative (MPRI), Department of Corrections (DOC) (Fiscal Year 2011-12)

DOC had not established a comprehensive process to monitor and evaluate the effectiveness of MPRI services. As a result, DOC could not assess the strengths,

weaknesses, needs, and overall effectiveness of MPRI. DOC expended \$26.9 million, \$43.5 million, and \$52.7 million in fiscal years 2007-08, 2008-09, and 2009-10, respectively, and budgeted \$52.1 million in fiscal year 2010-11 for MPRI services. Therefore, it is imperative that DOC be able to determine the true value of MPRI services.

Michigan Women, Infants, and Children Information System (MI-WIC), Department of Community Health (DCH) and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2011-12)

DCH, in conjunction with DTMB, did not effectively monitor the third party vendor's security configuration of the MI-WIC database. As a result, we identified numerous database security weaknesses. Securing the MI-WIC database from potential vulnerabilities is essential for ensuring the confidentiality of participant data.

Office of Professional Preparation Services (OPPS), Michigan Department of Education (MDE) (Fiscal Year 2010-11)

OPPS should monitor school districts to ensure that school districts provide teachers with the required amount of professional development. In addition, OPPS should validate the professional development data recorded by school districts in the Registry of Educational Personnel database. Without monitoring teacher development, OPPS cannot ensure that school districts are providing professional development designed to enable teachers to gain new skills and knowledge.

Office of Services to the Aging's (OSA's) Community Services Division (OSA-CSD) and State Long Term Care Ombudsman (OSA-SLTCO), Department of Community Health (DCH) (Fiscal Year 2011-12)

OSA-CSD did not ensure that area agency on aging (AAA) subcontractors were effectively monitored to help ensure that service programs were operated in accordance with service contracts and in compliance with OSA operating standards for service programs. Also, OSA had not established effective internal control to help ensure that AAAs always conducted criminal background checks of all service program paid and volunteer staff. In addition, OSA did not provide AAAs with standardized guidelines for assessment of convictions identified during criminal background checks. Further, OSA-SLTCO had not established policies and procedures for monitoring the activities of local long term care ombudsmen.

Oversight of Local Accounting System Replacement (LASR) Payment Processing, Division of Financial Management, Bureau of Accounting, Department of Human Services (DHS) (Fiscal Year 2010-11)

The Division had not established effective internal control for granting and monitoring access to LASR. Establishing effective internal control would help ensure that only appropriate transactions are processed in LASR.

DHS did not determine the entity responsible for federal Internal Revenue Service (IRS) 1099 reporting for LASR payments processed by DHS local offices. As a result, DHS may not be in compliance with IRS requirements and may be subject to penalties from the federal government.

Pharmaceutical Costs, Department of Corrections (DOC) (Fiscal Year 2010-11)

DOC, in conjunction with the Department of Community Health, had not timely implemented measures to contain the prescribing of high-cost atypical antipsychotic medications. As a result, DOC's pharmaceutical costs for atypical antipsychotic medications far exceed the levels reported for prison populations in other states and significantly impact DOC's overall pharmaceutical costs. We estimated annualized potential savings from \$852,000 to \$8.5 million.

Also, DOC had not established sufficient procedures and contract language to ensure that it could minimize pharmaceutical waste and maximize the cost savings benefit of returning unused medications to the pharmacy contractor. As a result, the Bureau of Health Care Services (BHCS) was unable to determine and manage the quantity and costs of returned and discarded medications and could not ensure that proper credit was received for all returned medications. DOC spent \$98.4 million for prisoner pharmaceuticals from October 1, 2007 through July 15, 2010. In addition, BHCS had not implemented sufficient controls over the medication refill process. As a result, facilities had excessive inventory, waste, and return of medication, which contributed to increased pharmaceutical costs.

Further, DOC had not established sufficient controls related to receiving, maintaining, and distributing prisoner medications. Failure to ensure that medications are properly controlled and distributed increases pharmaceutical costs and the risk that medications could be subject to loss, theft, or abuse.

Procurement Card Program, Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2010-11)

DTMB did not complete a Statewide cost study to determine the cost of processing procurement card transactions and to evaluate the impact of the Procurement Card Program. A comprehensive Statewide cost study would provide DTMB with information necessary to determine if it should expand the use of the Procurement Card Program. We estimated potential operating savings of \$433,311 if the State maximized the procurement card usage under DTMB's current policy and \$1,378,672 if DTMB increased the transaction limits for procurement card purchases.



Project Management of the Bridges Integrated Automated Eligibility Determination System (Bridges), Department of Human Services (DHS), Department of Community Health (DCH), and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2010-11)

DHS, DCH, and DTMB did not provide effective project administration over Bridges' system development. Also, DHS, DCH, and DTMB did not ensure that the State was able to independently maintain and operate Bridges. In addition, DHS, DCH, and DTMB did not conduct an implementation review of Bridges.

Real Estate Acquisitions, Dispositions, and Land Holdings, Department of Natural Resources (DNR) (Fiscal Year 2011-12)

DNR's process to dispose of non-essential land holdings identified by its Land Ownership Strategy was not effective. As a result, DNR held land that did not meet its mission and initiatives and most likely caused unnecessary costs to the State for land stewardship and payments in lieu of taxes or swamp tax payments. Also, DNR should seek remedies, with the assistance of the Department of Corrections (DOC); the Department of Technology, Management, and Budget (DTMB); and the Governor's office, to demolish, restore to recreational value, or sell vacated correctional facilities located on State-owned land.

Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources (DNR) (Fiscal Year 2010-11)

DNR did not comply with State law when expending State restricted funding for State and local waterways projects. In addition, DNR did not comply with State law to seek legislative approval for increased budgetary authorizations when local waterways project costs exceeded amounts identified and authorized in its capital outlay appropriations acts. Further, DNR did not ensure that only reasonable costs were reimbursed for a local waterways project. As a result, DNR spent \$4,024,946 of State restricted funds for recreational watercraft access and harbor development project costs without authorization from the Legislature and reimbursed a local community for \$17,800 in questionable costs.

Rehabilitation Service Expenditures, Michigan Rehabilitation Services (MRS), Department of Licensing and Regulatory Affairs (Fiscal Year 2011-12)

MRS did not always obtain required documentation related to vehicle purchases made on behalf of MRS customers. As a result, MRS could not ensure that all funding utilized for vehicle purchases was expended in accordance with MRS policy. Of the 100 randomly selected MRS cases reviewed, 22 cases included 23 vehicle purchases totaling \$498,327. We identified 18 (78%) of 23 vehicle purchases totaling \$410,513 that were not documented in accordance with MRS policy.

Retail Sales System (RSS), Department of Natural Resources (DNR) and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2011-12)  
DNR, in conjunction with DTMB, did not implement controls within RSS that allow verification that customers who purchased hunting and fishing licenses met the age eligibility requirements. As a result, the data in RSS suggests that DNR sold hunting and fishing licenses to customers who did not meet the age eligibility requirements. Also, DNR, in conjunction with DTMB, did not implement controls within RSS to prevent customers from purchasing more than one hunting license per season. As a result, customers inappropriately purchased more than one hunting license during a license year.

Selected Application Controls of the Bridges Integrated Automated Eligibility Determination System (Bridges), Department of Human Services (DHS), Department of Community Health (DCH), and Department of Technology, Management, and Budget (DTMB) (Fiscal Year 2010-11)  
DHS and DCH, in conjunction with DTMB, did not periodically match all Bridges client records to other data sources to identify deceased clients. Also, DHS and DCH, in conjunction with DTMB, had not implemented selected data edits to ensure the integrity of Bridges data.

Selected Probate Court Conservatorship and Guardianship Cases (Fiscal Year 2011-12)  
The State Court Administrative Office did not provide guidance to the probate courts on performing background checks prior or subsequent to the appointment of conservators or guardians. Failure to perform background checks may allow an unsuitable individual to have responsibility over a protected individual.

Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations, Unemployment Insurance Agency (UIA) (Fiscal Year 2010-11)  
UIA needs to improve its controls to help ensure that it correctly classifies claimants' intentional misrepresentations or concealment of material facts to obtain unemployment insurance benefits as fraud. We estimated that UIA did not assess fraud-related penalties totaling from \$81.5 million to \$191.8 million.

UIA's Benefit Payment Control Unit (BPC) did not have effective controls to ensure that its claimant wage and unemployment insurance benefit payment cross match process consistently detected overpayments to claimants. We estimated that during fiscal years 2007-08 and 2008-09, BPC may not have detected and recovered as much as \$55.7 million to \$61.3 million in unemployment insurance benefit overpayments and associated penalties.

Youth Transitioning From Foster Care to Self-Sufficiency, Department of Human Services (DHS) (Fiscal Year 2011-12)

DHS had not developed or implemented a comprehensive process to evaluate the outcomes and value of the services it provided to transitioning youth. As a result, DHS limited its ability to identify weaknesses or gaps in its services for transitioning youth, establish and strengthen accountability for the expenditure of public funds, maximize resource allocations, and demonstrate the success of its efforts to assist transitioning youth. Also, DHS's internal control did not ensure the propriety and reasonableness of discretionary payments it made using Youth in Transition (YIT) resources. In addition, DHS had not fully established guidance for discretionary payments made on behalf of transitioning youth using YIT resources.

**Financial Audits**

Approximately 66% of our direct audit hours were used for financial audits in fiscal years 2010-11 and 2011-12.

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 13% and 15% of our direct audit hours were used to conduct the fiscal year 2009-10 and 2010-11 *SOMCAFR* audits, respectively.
2. Biennial audits, in conformance with the federal Single Audit Act Amendments of 1996, of State departments that receive significant federal funding. Approximately 42% and 40% of our direct audit hours were used to conduct single audits during fiscal years 2010-11 and 2011-12, respectively.
3. Periodic audits of other departments, funds, and component units. The composition and frequency of these financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 11% and 10% of our direct audit hours were used to conduct other financial audits in fiscal years 2010-11 and 2011-12, respectively.

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.

**SOMCAFR Audit**

The *SOMCAFR* is prepared by the Office of Financial Management (OFM), Department of Technology, Management, and Budget (DTMB). The *SOMCAFR* includes the State of Michigan government-wide financial statements, fund

financial statements for the State's major funds, combining and individual fund financial statements for nonmajor funds, and statistical data. Included in the State's reporting entity are all funds, departments and agencies, bureaus, boards, commissions, and authorities that are considered an integral part of the primary government. Also included are component units for which the State is financially accountable. The component units consisted of 11 authorities and 10 public universities for fiscal years 2009-10 and 2010-11.

The OAG annually audits the *SOMCAFR* and the Auditor General issues an independent auditor's report on the State's financial statements. For fiscal years 2009-10 and 2010-11, the Auditor General's independent auditor's report, dated February 18, 2011 and March 9, 2012, respectively, included unqualified opinions for each of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

The OAG recommended 12 audit adjustments of \$133.3 million during fiscal year 2009-10. State agencies and OFM made correcting entries for 4 of the 12 recommended adjustments. The net effect of the uncorrected adjustments was \$60.3 million in the government-wide statements and \$42.8 million in the fund level statements for fiscal year 2009-10.

Significant deficiencies in internal control identified during the fiscal year 2009-10 *SOMCAFR* audit included:

- The Department of Community Health (DCH) did not have internal control in place to ensure that the effect of known Community Health Automated Medicaid Processing System (CHAMPS) defects were reviewed and included in the Medicaid accrual as necessary. As a result, DCH could not ensure that the accrued payables of \$853.5 million and the accrued receivables of \$331.0 million related to the Medicaid accrual were complete in the State's financial statements.
- DCH did not have sufficient internal control to ensure that historical claims data was accurately converted from the Medicaid Management Information System (MMIS) data warehouse to the new CHAMPS data warehouse. As a result, DCH could not ensure that historical claims data used to estimate \$160.8 million in payables and \$18.2 million in receivables related to the long-term care and health plan services accrual components of the Medicaid accrual was accurate.
- DCH did not have internal control in place to prevent or detect and correct payment errors made through CHAMPS. As a result, we estimated that fiscal

year 2009-10 General Fund expenditures were likely understated by \$35.0 million. Total fiscal year 2009-10 CHAMPS payments totaled \$10.4 billion.

- DCH did not ensure that all expenditures/expenses and revenues were properly accrued for amounts due or for amounts not yet collected at September 30, 2010 for Medicaid. As a result, net understatements of \$2.9 million were noted in liabilities, \$12.9 million in expenditures/expenses, and \$7.1 million in revenues and net overstatements of \$2.9 million were noted in assets and \$5.8 million in fund balance/net assets in the General Fund financial statements and in the governmental activities of the government-wide financial statements.
- DCH did not have sufficient internal control to ensure that proper payments were made to long-term care skilled nursing facilities. As a result, it could not ensure that a portion of the approximately \$814.7 million fee-for-service payments to long-term care facilities was proper.
- DCH did not have sufficient internal control to ensure that pharmaceutical rebates were accurately invoiced. As a result, DCH could not ensure that the appropriate amount of rebates was included in the pharmaceutical billings. During fiscal year 2009-10, DCH received approximately \$247.7 million in rebates from pharmaceutical drug manufacturers.
- The Michigan Department of Education's (MDE's) year-end closing procedures did not include a comparison of its accounts receivable subsidiary detail with the "Amounts due from local units" recorded in the Michigan Administrative Information Network (MAIN). As a result, MDE did not detect that the amount recorded in MAIN exceeded the amount reflected in MDE's subsidiary records by \$16.7 million.

The OAG recommended 37 audit adjustments of \$649.3 million during fiscal year 2010-11. State agencies and OFM made correcting entries for 23 of the 37 recommended adjustments. The net effect of the uncorrected adjustments was \$35.6 million in the government-wide statements and \$52.8 million in the fund level statements for fiscal year 2010-11.

Significant deficiencies in internal control identified during the fiscal year 2010-11 *SOMCAFR* audit included:

- DCH and OFM did not properly estimate the payable and receivable for the full cost school based services component of the Medicaid accrual. As a result, assets were understated by \$10.0 million, liabilities were understated by \$4.7 million, fund balance/net assets were understated by \$5.4 million, revenue was understated by \$13.4 million, and expenditures/expenses were understated by \$8.0 million.

- DCH and OFM did not properly estimate the payable and receivable for the long-term care Medicaid Interim Payment Program reconciliations component of the Medicaid accrual. As a result of formula errors, assets were overstated by \$3.5 million, liabilities were overstated by \$2.2 million, fund balance/net assets were overstated by \$1.3 million, revenue was understated by \$2.5 million, and expenditures/expenses were understated by \$3.7 million.
- DCH and OFM did not properly estimate the payable and receivable for the inpatient hospital capital cost component of the Medicaid accrual. During our review, we noted that the methodology used did not include an accrued liability for all inpatient hospital capital costs incurred. As a result, assets were understated by \$4.4 million, liabilities were understated by \$6.6 million, fund balance/net assets were overstated by \$2.2 million, revenue was understated by \$4.4 million, and expenditures/expenses were understated by \$6.6 million.
- The Department of Treasury and OFM did not properly calculate and record the full accrual tax entries. In addition, when reversing prior year taxes received during fiscal year 2010-11, OFM did not use the same reversal percentages as contained in the final GASB 34 Report. As a result, current assets and deferred revenue were overstated by \$34.0 million in the General Fund financial statements and by \$33.0 million in the School Aid Fund financial statements. In addition, current assets, revenues, and net assets were overstated by \$67.0 million in the governmental activities of the government-wide financial statements.
- The Department of Treasury and OFM did not properly calculate the liability related to unprocessed Michigan Business Tax returns claiming a refund. As a result, we estimated that payables were understated and revenues and fund balance/net assets were overstated by \$10.7 million with a potential for an additional misstatement of up to \$25.8 million in the General Fund and the governmental activities of the government-wide financial statements.
- OFM, in conjunction with other State departments, did not have sufficient internal control in place to ensure that all capital assets were properly accounted for and reported, resulting in net overstatements of \$263.2 million in expenses and net understatements of \$263.2 million in assets and net assets in the governmental activities of the government-wide financial statements.

### Single Audits

In July 1996, the federal Single Audit Act was amended and the U.S. Office of Management and Budget (OMB) expanded and reissued Circular A-133 as the audit requirement for state and local governments. The Single Audit Act requires state and local governments receiving \$500,000 or more of federal financial assistance in

any fiscal year to have a comprehensive financial audit, including an assessment of the entity's compliance with federal program requirements. The recipients of the federal funding are required to submit the audit reports to the federal government within nine months of the end of the fiscal year.

In fiscal years 2010-11 and 2011-12, we conducted 22 single audits and reported total net questioned costs of \$440 million.

We conducted the following single audits during fiscal year 2010-11:

1. Michigan Department of Agriculture
2. Department of Attorney General
3. Department of Civil Rights
4. Department of Energy, Labor & Economic Growth
5. Department of History, Arts and Libraries
6. Department of Human Services
7. Department of State
8. Department of Technology, Management & Budget
9. Michigan Department of Transportation
10. Department of Treasury
11. Land Bank Fast Track Authority
12. Michigan Economic Development Corporation
13. Michigan Finance Authority
14. Michigan Strategic Fund
15. State-Funded Judicial Operations

The material exceptions are summarized below:

- Department of Energy, Labor & Economic Growth (DELEG)  
DELEG's internal control did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; procurement and suspension and debarment; and matching, level of effort, and earmarking for the Vocational Rehabilitation Cluster. Also, DELEG did not comply with federal laws and regulations regarding eligibility. We issued a qualified opinion on compliance with federal laws and regulations for the Vocational Rehabilitation Cluster. We also identified known questioned costs of \$24,201,911.

- Department of Human Services (DHS)  
We audited 13 programs as major programs and identified known questioned costs of \$396.7 million. DHS expended a total of \$9.4 billion in federal awards during the two-year period ended September 30, 2010. We issued 7 unqualified opinions, 4 qualified opinions, and 2 adverse opinions.

DHS's internal control over the Temporary Assistance for Needy Families (TANF) Cluster did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; reporting; and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance with compliance requirements related to activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and special tests and provisions (child support noncooperation, Income Eligibility and Verification System, and penalty for refusal to work). As a result, we issued an adverse opinion on compliance with federal laws and regulations for the TANF Cluster. Federal expenditures for the TANF Cluster totaled \$1.6 billion for the two-year period ended September 30, 2010. We identified known questioned costs of \$366,636,609.

DHS's internal control over the Child Care and Development Fund (CCDF) Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CCDF Cluster. DHS did not maintain documentation to support client or provider eligibility for child care benefits for 43 (72%) of 60 expenditures reviewed.

We conducted the following single audits during fiscal year 2011-12:

1. Department of Community Health
2. Department of Corrections
3. Michigan Department of Education
4. Department of Environmental Quality
5. Department of Military and Veterans Affairs
6. Department of Natural Resources
7. Michigan Department of State Police



The material exceptions are summarized below:

- Department of Community Health (DCH)  
We audited 11 programs as major programs and identified known questioned costs of \$35,616. DCH expended a total of \$19.5 billion in federal awards during the two-year period ended September 30, 2011. We issued 10 unqualified opinions and 1 adverse opinion.

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding eligibility. Our review disclosed a material weakness in internal control and material noncompliance with the eligibility compliance requirement. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Medicaid Cluster. We also identified known questioned costs totaling \$16,692. DCH did not ensure or demonstrate compliance with federal laws and regulations relating to beneficiary eligibility for Medicaid services for 19 (29%) of 66 Medicaid cases.

- Michigan Department of Education (MDE)  
We audited 19 programs as major programs and identified known questioned costs of \$9.5 million. MDE expended a total of \$5.2 billion in federal awards during the two-year period ended September 30, 2011. We issued 18 unqualified opinions and 1 adverse opinion.

MDE's internal control over the Emergency Food Assistance Program (TEFAP) Cluster did not ensure compliance with federal laws and regulations regarding procurement and suspension and debarment and subrecipient monitoring. Our review disclosed material weaknesses in internal control over subrecipient monitoring. MDE's federal expenditures for the TEFAP Cluster totaled \$7.2 million for the two-year period ended September 30, 2011. Of these expenditures, MDE distributed \$3.7 and \$3.4 million to subrecipients in fiscal years 2009-10 and 2010-11, respectively. MDE also distributed donated food commodities valued at \$42.0 million to subrecipients during the two-year period ended September 30, 2011.

MDE's internal control over the Early Intervention Services (IDEA) Cluster did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking. Our review disclosed a material weakness in internal control. Federal expenditures for the Early Intervention Services (IDEA) Cluster totaled \$33.1 million for the two-year period ended September 30, 2011. Of these expenditures, MDE distributed \$16.2 million and \$15.6 million to subrecipients in fiscal years 2009-10 and 2010-11, respectively.

MDE's internal control over the English Language Acquisition (ELA) Grants Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, subrecipient monitoring, and special tests and provisions. Our review disclosed material weaknesses in internal control over allowable costs/cost principles. We identified known questioned costs of \$90,786. Federal expenditures for the ELA Grants Program totaled \$17.9 million for the two-year period ended September 30, 2011. Of these expenditures, MDE distributed \$6.6 million and \$10.3 million to subrecipients in fiscal years 2009-10 and 2010-11, respectively.

MDE's internal control over the College Access Challenge Grant (CACG) Program did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking and reporting. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding matching, level of effort, and earmarking. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the CACG Program. We identified known questioned costs of \$971,428.

- **Department of Environmental Quality (DEQ)**  
We audited 12 programs as major programs and identified known questioned costs of \$18,987. DEQ expended a total of \$397.5 million in federal awards during the two-year period ended September 30, 2011. We issued 11 unqualified opinions and 1 qualified opinion on DEQ's compliance with major federal program compliance requirements. DEQ's internal control over Air Pollution Control Program Support did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking.
- **Department of Military and Veterans Affairs (DMVA)**  
DMVA did not comply with National Guard ChalleNGe (NGC) Program federal laws and regulations and cooperative agreements concerning eligibility. Also, DMVA's internal control over the NGC Program did not ensure its compliance with federal laws and regulations and cooperative agreements regarding eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; and reporting. As a result, we issued an adverse opinion on compliance with federal laws and regulations and cooperative agreements for the NGC Program. We also identified known questioned costs of \$4,823,928.
- **Department of Natural Resources (DNR)**  
We audited 7 programs as major programs and reported known questioned costs of \$177,112. DNR expended a total of \$95 million in federal awards during the two-year period ended September 30, 2011. We issued 7 unqualified opinions.

DNR did not obtain sufficient assurances regarding the internal control of the service organization that operated the Central Reservation System. As a result, DNR could not ensure that the \$61.4 million in receipts processed by the Central Reservation System for the two-year period ended September 30, 2011 were properly safeguarded and completely processed. We consider this to be a material weakness in internal control.

#### Other Financial Audits

The OAG conducts financial audits of certain funds, subfunds of the General Fund, and component units. Many of these audits are mandated by State statutes.

We conduct our financial audits in accordance 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 financial statements and/or financial schedules.

During fiscal year 2010-11, we conducted the following financial audits:

1. Emergency 9-1-1 Fund
2. Farm Produce Insurance Agency
3. Mackinac Bridge Authority
4. Michigan Education Trust Plans B and C
5. Michigan Education Trust Plan D
6. Michigan Judges' Retirement System
7. Michigan Legislative Retirement System
8. Michigan Public School Employees' Retirement System
9. Michigan State Employees' Retirement System
10. Michigan State Police Retirement System
11. State Building Authority
12. State of Michigan 401K Plan
13. State of Michigan 457 Plan
14. State Sponsored Group Insurance Fund
15. Transition in the Office of State Treasurer

We noted the following material exceptions:

- State of Michigan 401K Plan and State of Michigan 457 Plan  
The Office of Retirement Services and Financial Services' internal control over financial reporting did not ensure that it would prevent, or detect and correct, financial statement misstatements and misclassifications in a timely manner. As a result, we identified several financial statement errors during our audit that, when brought to Financial Services' attention, were corrected.

During fiscal year 2011-12, we conducted the following financial audits:

1. Emergency 9-1-1 Fund
2. Michigan Economic Development Corporation
3. Michigan Education Trust Plans B and C
4. Michigan Education Trust Plan D
5. Michigan Finance Authority
6. Michigan Judges' Retirement System
7. Michigan Justice Training Fund
8. Michigan Legislative Retirement System
9. Michigan Public School Employees' Retirement System
10. Michigan State Employees' Retirement System
11. Michigan State Police Retirement System
12. Michigan Strategic Fund
13. State of Michigan 401K Plan
14. State of Michigan 457 Plan

We noted the following material exceptions:

- Michigan Strategic Fund (MSF)  
MSF's internal control over financial reporting did not ensure that accounting transactions and financial statement balances were properly recorded and reported in accordance with generally accepted accounting principles. As a result, we identified several financial statement errors during our audit that, when brought to MSF's attention, were corrected.
- State of Michigan 401K Plan  
The Office of Retirement Services and Financial Services' internal control over financial reporting did not ensure that it would prevent, or detect and correct, financial statement misstatements and misclassifications in a timely manner. As a result, we identified several financial statement errors during our audit that, when brought to Financial Services' attention, were substantially corrected.

## **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 any member of 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 of our office because the OAG is the only agency in State government that has the sole responsibility to act as the overseer of public funds on behalf of the Legislature.

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

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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.

## **National Awards**

### **National Legislative Program Evaluation Society (NLPES)**

The OAG actively participates in 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 annually solicits its members to submit one released report for consideration of an "Impact Award." This national award honors participating legislative offices that have produced work which has demonstrably improved state government. NLPES's 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' perspective.

The OAG earned Impact Awards in both fiscal years 2010-11 and 2011-12. These national awards recognized the OAG's continued auditing efforts. The OAG has earned Impact Awards for all 14 years that the OAG has participated in the NLPES Awards Program.

### 2011 NLPES Impact Award

The OAG received a 2011 Impact Award for the performance audit of the Bureau of Correctional Industries, Department of Corrections, issued in June 2009. The audit team consisted of Elmer Hess, Audit Supervisor; team members Ryan Austin, Dennis McMillan, and OAG retiree Hilary Goerge; Laura Hirst, Audit Division Administrator; and Mary Jo Koschay, Audit Manager. The audit report contained 7 findings, including 1 material condition. The audit had wide-ranging impact from program improvements, from the legislative perspective, and from the public perspective. The report identified that the Bureau of Correctional Industries needs to initiate further measures to ensure that it operates as a total self-supporting system. In response to our audit, the Correctional Industries Act (Act 15, P.A. 1968) was amended by Act 307, P.A. 2010, and Act 308, P.A. 2010.



The audit team consisted of (left to right) Mary Jo Koschay, Dennis McMillan, Ryan Austin, Elmer Hess, and Laura Hirst. Missing from the picture is OAG retiree Hilary Goerge.

### 2012 NLPES Certificate of Impact Award

The OAG received a 2012 Certificate of Impact Award for the performance audit of Pharmaceutical Costs, Department of Corrections, issued in March 2011. The audit team consisted of Mike Ventura, Audit Supervisor; team members Mark Lee and Susan Morway; Laura Hirst, Audit Division Administrator; and Mary Jo Koschay, Audit Manager. The audit report contained 14 findings, including 4 material conditions. The report identified that the Department of Corrections' efforts to manage prisoner pharmaceutical costs and to control and safeguard prisoner pharmaceuticals were not effective. In response to our audit, the Department revised its drug policy, which resulted in annual cost savings of about \$10.9 million.



The audit team consisted of (left to right, front to back) Mary Jo Koschay, Mark Lee, Mike Ventura, Susan Morway, and Laura Hirst.



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 the audit reports 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 National State Auditors Association triennial external quality control review of the OAG, as well as the OAG's participation in the external quality control reviews of other states' audit agencies.

The Office of Professional Practice oversees the 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 audit 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.

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*... oversees the  
quality control  
system of the  
OAG...*

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### **Quality Assurance**

Quality Assurance staff review OAG 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.

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*... review audit  
reports and  
working papers  
to ensure  
compliance with  
professional  
standards...*

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### **Audit Report Review**

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***... edits the  
audit reports  
for substance,  
correctness,  
and style.***

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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.

### **Research and Professional Standards**

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***... provides  
timely assistance  
on accounting  
and auditing  
issues ...***

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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. To ensure compliance with applicable professional standards and to increase the effectiveness and efficiency of our audit activities, we processed 15 updates to the OAG Auditor's Manual for the two-year period ended September 30, 2012.

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. Government Accountability Office; U.S. Office of Management and Budget; American Institute of Certified Public Accountants; National Association of State Auditors, Comptrollers, and Treasurers; and National State Auditors Association. Also, OAG staff contribute to the profession by making presentations at conferences and seminars of professional organizations and by participating on their standing committees.

## Office of Information Technology

The Office of Information Technology is responsible for all OAG networks and information systems. The Office also provides specialized data extraction/analysis and computer hardware and software support and training to all OAG staff. This ensures effective use of technology within our audit environment.

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*... ensures effective use of technology within our audit environment.*

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## Information Systems Network and Computer Support

This section maintains the OAG networks and information systems and provides hardware and software support to our audit staff. Our information systems networks permit both our central office staff and staff at remote audit locations to communicate and share audit information in a secure manner. The section also ensures that each auditor has computer equipment and the necessary software to assist in the performance of an audit.

In fiscal year 2011-12, we redesigned our Internet web site to be more easily navigable and added social media options for notifications of our audits. Our Internet web site includes complete audit reports, a search function, and a "list-serve" function. Visitors to our Web site 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 report summary of all newly released audit reports via e-mail or to receive notifications via social media.

We also are continuing to expand virtualization and thin client technologies to maximize the utilization of information technology resources. In the future we plan on exploring the feasibility of cloud technologies and their benefits within the OAG along with an analysis of the types of user interfaces suited for auditing.

## Information Systems Data Analysis

This section extracts and analyzes automated information to assist OAG staff in all phases of the audit cycle. We have the capacity to extract and analyze any automated information for audit purposes. Our skilled staff utilize various software tools to ensure efficient and reliable extraction/analysis of automated financial and nonfinancial data from a variety of platforms (e.g., mainframe, client-server, and data warehouse).

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*... extract and analyze any automated information for audit purposes.*

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In fiscal year 2011-12, we provided audit staff with training in Audit Command Language (ACL), our primary data analysis tool, and we worked with audit staff to update our standardized processes to accommodate the transition to a Statewide Single Audit. We also continued our emphasis on developing standard server based applications in order to analyze automated information for audit purposes along with leveraging the information available in the various State data warehouses.

Our goals for next year include cross-training our staff and further refining our data extraction and retrieval techniques. We will also focus on training audit staff in assessing the data parameters needed to audit.

### **Office of Administration**

The Office of Administration provides human resource management; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

### **Human Resources/Budget**

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.

#### Recruiting

Several members of our professional staff took advantage of early-retirement incentives and, along with other departures, we experienced turnover of 26 of our professional staff during the past two years. We were active in recruiting new audit staff to replace these employees and successfully hired 33 new auditors, accounting for a net increase of 7 new audit staff.

#### 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

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

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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 2010-11 and 2011-12, the OAG provided 7,263 hours of continuing education. Training focused on revised documentation requirements necessary to complete financial and single audits, auditor ethics, and proper identification and use of audit evidence. Audit staff also received performance audit training and training on Audit Command Language (ACL) software used in the conduct of OAG audits.

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

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The Michigan Office of the Auditor General hosted the regional Midwestern Intergovernmental Audit Forum on September 25, 2012 and September 26, 2012, in Lansing, Michigan. Forum participants had the opportunity to receive training from speakers and trainers from the local, state, and national levels. Forum topics included Lessons Learned in Emergency Management, Emerging Issues in Government Accounting and Auditing, Continuous Process Improvement in a Period of Budgetary Constraints, and Cyber Security in Michigan.

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 126 professional audit staff employed at September 30, 2012, 62 had obtained certification from one or more of the various professional certification programs. The OAG professional audit staff included 59 certified public accountants, 3 certified internal auditors, and 11 certified information systems auditors. We also had 21 staff members who had earned master's degrees and 7 staff members who had completed associate's degrees in business controls and security, in addition to their bachelor's degrees.

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***Certified public accountants..... 59***

***Certified internal auditors ..... 3***

***Certified information systems auditors ..... 11***

***Master's degrees .... 21***

***Associate's degrees in data processing ..... 7***

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During fiscal years 2010-11 and 2011-12, the following OAG staff members became certified public accountants:

Shannon Comer	Bradley LaBram
Leah Decker	Brandon McAndrew
Shannah Havens	Allison Mikulec
Christopher Hundt	Michele Novak

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; the National Legislative Program Evaluation Society; and the Information Systems Audit and Control Association. Staff members often participate as officers, board members, and committee members of local, State, and national accounting and auditing organizations.

### **Accounting and Budget**

This section is responsible for accounting for OAG revenues and expenditures in addition to budgeting and planning. We continue to face budgeting challenges. Like other State departments and agencies, our appropriations have been limited, resulting in a number of uncertainties as we plan for our spending.

### **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 and conference materials.
- Ordering, receiving, and stocking of office supplies and equipment.
- Arranging for the surplus and salvage of OAG materials, equipment, and furniture.
- Recycling activities.

### **Clerical Support**

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

In addition, Clerical Support staff process payroll transactions for OAG employees. Staff enter employee time sheets, process biweekly time and attendance reports, and enter time and attendance into the State's Data Collection and Distribution System.

The OAG requires that all staff hours be properly accounted for. To assist in this effort, Clerical Support staff enter budget hours and direct hours for all OAG activities. Staff are also responsible for preparing audit report related information for inclusion on our Internet web site.

Clerical Support staff are cross-trained and, because of the information systems network, can perform their duties at any of several office work stations. Employee cross-training and automation have enabled us to minimize our staffing needs.

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

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## **Office of the Auditor General Reports and Other Information**

An audit report and its supporting evidence are considered confidential until the report's official release to the Legislature, the 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 found on our Internet web site at **<<http://audgen.michigan.gov>>** or 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 at (517) 334-8050
- By FAX at (517) 334-8079 (please include your name, address, and the specific reports or other desired information in your request).



MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

\* Letter report.  
R Audit required by law.  
N/A Not applicable.

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
AGRICULTURE, MICHIGAN DEPARTMENT OF				
791-0100-11	Michigan Department of Agriculture - R  The audit included an unqualified opinion on the Michigan Department of Agriculture's financial schedules. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify a significant deficiency. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 8 programs as major programs and identified known questioned costs of \$108,612. The Department expended a total of \$17.0 million in federal awards during the two-year period ended September 30, 2010. The audit included 8 unqualified opinions on the Department's compliance with major federal program requirements. The audit did not identify any deficiencies in internal control over federal program compliance that are considered to be material weaknesses. However, it did identify significant deficiencies. The audit also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.	Single	5	1
791-0360-11	Farm Produce Insurance Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Farm Produce Insurance Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
ATTORNEY GENERAL, DEPARTMENT OF				
111-0100-11	Department of Attorney General - R  The audit included an unqualified opinion on the Department of Attorney General's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 1 program as a major program and included an unqualified opinion on the Department's compliance with major federal program requirements. The Department expended a total of \$7.5 million in federal awards during the two-year period ended September 30, 2010. The audit did not report any findings related to internal control over federal program compliance. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.	Single	0	0
CIVIL RIGHTS, DEPARTMENT OF				
151-0100-11	Department of Civil Rights - R  The audit included an unqualified opinion on the Department of Civil Rights' financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 2 programs as major programs and included 2 unqualified opinions on the Department's compliance with major federal program requirements. The Department expended a total of \$4.0 million in federal awards during the two-year period ended September 30, 2010. It did not report any findings related to internal control over federal program compliance. It also did not identify any instances	Single	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>. The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i>) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management &amp; Budget.</p> <p>COMMUNITY HEALTH, DEPARTMENT OF</p>			
391-0135-08	<p>Selected Service-Related Contracts and Grant Agreements</p> <p>The audit concluded that the Department of Community Health's efforts to ensure that selected service-related contracts and grant agreements contained comprehensive service descriptions, detailed budgets, performance criteria, and monitoring provisions were moderately effective. It noted two reportable conditions. The audit also concluded that the Department's efforts to ensure that it awarded selected service-related contracts and grant agreements on a fair and competitive basis were moderately effective. It noted two reportable conditions. In addition, the audit concluded that the Department's efforts to monitor and evaluate the performance of selected contractors and grantees were moderately effective. It noted one reportable condition.</p>	Performance	5	0
391-0220-10	<p>Kalamazoo Psychiatric Hospital, Bureau of Hospitals, Centers, and Forensic Mental Health Services</p> <p>The audit concluded that the Kalamazoo Psychiatric Hospital (KPH) was moderately effective in its efforts to deliver selected patient care services. It noted one material condition and three reportable conditions. The audit also concluded that KPH's efforts were moderately effective in safeguarding and efficiently using selected resources. It noted one reportable condition. In addition, the audit concluded that KPH was not effective in its efforts to investigate and resolve complaints about its operations. It noted one material condition.</p>	Performance	6	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	CORRECTIONS, DEPARTMENT OF			
471-0221-10	Newberry Correctional Facility  The audit concluded that the Newberry Correctional Facility's efforts to comply with selected policies and procedures related to safety and security were moderately effective. It noted eight reportable conditions.	Performance	9	0
471-0232-10	Ryan Correctional Facility  The audit concluded that the Ryan Correctional Facility's efforts to comply with selected policies and procedures related to safety and security were moderately effective. It noted seven reportable conditions.	Performance	7	0
471-0249-11	St. Louis Correctional Facility  The audit concluded that the Department of Corrections' efforts to comply with selected policies and procedures related to safety and security at the St. Louis Correctional Facility were moderately effective. It noted 10 reportable conditions.	Performance	15	0
471-0253-10	Mound Correctional Facility  The audit concluded that the Mound Correctional Facility's efforts to comply with selected policies and procedures related to safety and security were moderately effective. It noted eight reportable conditions.	Performance	3	5
471-0325-09L	Pharmaceutical Costs  The audit concluded that the Department of Corrections' (DOC's) efforts to manage prisoner pharmaceutical costs were not effective. It noted three material conditions and six reportable conditions. The audit also concluded that DOC's efforts to control and safeguard prisoner pharmaceuticals were not effective. It noted one material condition and four reportable conditions.	Performance	14	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>			
313-0140-10	Office of Professional Preparation Services  The audit concluded that the Office of Professional Preparation Services (OPPS) was not effective in the monitoring of teachers' professional development requirements and was effective in the monitoring of teachers' continuing education requirements. It noted one material condition and one reportable condition. The audit also concluded that OPPS's efforts were effective in ensuring that K-12 classes were taught by qualified teachers. However, it noted four reportable conditions.	Performance	7	1
	<b>ENERGY, LABOR &amp; ECONOMIC GROWTH, DEPARTMENT OF</b>			
	<b>Note:</b> Executive Order No. 2011-4, effective April 23, 2011, renamed the Department of Energy, Labor & Economic Growth as the Department of Licensing and Regulatory Affairs and abolished the Department of Energy, Labor & Economic Growth.			
641-0100-11	Department of Energy, Labor & Economic Growth - R  The audit included an unqualified opinion on the Department of Energy, Labor & Economic Growth's (DELEG's) financial schedules. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify significant deficiencies. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 15 programs (including 9 ARRA related programs) as major programs and identified known questioned costs of \$24.0 million. DELEG expended \$1.3 billion in federal awards, including \$211.0 million of ARRA funding, during the two-year period ended September 30, 2010. The audit included 14 unqualified opinions and 1 qualified opinion on DELEG's compliance with major federal program requirements. The audit identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S.	Single	14	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	Office of Management and Budget (OMB) Circular A-133. The audit determined that DELEG was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.			
641-0315-10	Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations, Unemployment Insurance Agency  The audit concluded that the Unemployment Insurance Agency's (UIA's) efforts to prevent, detect, and recover unemployment insurance benefit overpayments were not effective. It noted two material conditions and five reportable conditions. The audit also concluded that UIA's efforts to complete nonmonetary eligibility determinations in a timely manner were not effective. It noted three reportable conditions.	Performance	14	0

**ENVIRONMENTAL QUALITY, DEPARTMENT OF**

**Note:** Executive Order No. 2011-1, effective March 13, 2011, created the Department of Environmental Quality and abolished the Department of Natural Resources and Environment. Audit reports issued before March 13, 2011 can be located under the NATURAL RESOURCES AND ENVIRONMENT heading.

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	HISTORY, ARTS AND LIBRARIES, DEPARTMENT OF			
	<p><b>Note:</b> Executive Order No. 2009-36 transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and budgetary resources of the Department of History, Arts and Libraries to various State departments and agencies by Type I, II, and III transfers, effective October 1, 2009, and abolished the Department.</p>			
251-0100-10	<p>Department of History, Arts and Libraries - R</p> <p>The audit included an unqualified opinion on the Department of History, Arts and Libraries' (HAL's) financial schedules. It identified significant deficiencies in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other instances of noncompliance. The audit covered 3 programs (including 1 ARRA related program) as major programs and included 3 unqualified opinions on HAL's compliance with major federal program requirements. The audit identified known questioned costs of \$7,207 and known and likely questioned costs totaling \$131,827. HAL expended a total of \$7.5 million in federal awards, including \$345,100 of ARRA funding during the one-year period ended September 30, 2009. The audit identified significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that HAL was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i>. However, the audit identified deficiencies related to Section 18.1485.</p>	Single	5	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
HUMAN SERVICES, DEPARTMENT OF				
431-0100-11	<p>Department of Human Services - R</p> <p>The audit included unqualified opinions on the Department of Human Services' (DHS's) financial schedules and on the financial statements of the Children's Trust Fund. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify significant deficiencies. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other noncompliance. The audit covered 13 programs as major programs and identified known questioned costs of \$396.7 million. DHS expended a total of \$9.4 billion in federal awards, including \$347.2 million of ARRA funding, during the two-year period ended September 30, 2010. The audit included 7 unqualified opinions, 4 qualified opinions, and 2 adverse opinions on DHS's compliance with major federal program requirements. The audit identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DHS was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>. The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i>) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management &amp; Budget.</p>	Single	8	11
431-0110-05F	<p>Human Service Contracting</p> <p>The follow-up of 4 material conditions and 4 corresponding recommendations reported in the performance audit of Human Service Contracting (431-0110-05) disclosed that the Department of Human Services had complied with 2 recommendations and had not complied with 2 recommendations. The follow-up concluded that material conditions exist related to 2 findings and 2 corresponding recommendations.</p>	Performance	0	2



**MICHIGAN OFFICE OF THE AUDITOR GENERAL**

**Audit and Letter Reports Completed  
During Fiscal Year 2010-11**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
431-0142-10	Michigan State Disbursement Unit, Office of Child Support  The audit concluded that the Michigan State Disbursement Unit's efforts in monitoring its service provider's collection and disbursement of child support remittances were effective. However, it noted four reportable conditions. The audit also concluded that the Office of Child Support's efforts in monitoring the accuracy and completeness of the bank accounts used to account for child support activities were effective.	Performance	4	0
431-0450-10	Oversight of Local Accounting System Replacement (LASR) Payment Processing, Division of Financial Management, Bureau of Accounting  The audit concluded that the Division of Financial Management's efforts to ensure appropriate user access to LASR were not effective. It noted one material condition and one reportable condition. The audit also concluded that the Division's efforts to monitor local offices' use of LASR to process payments were moderately effective. It noted one material condition and four reportable conditions.	Performance	8	0
431-0591-10	Selected Application Controls of the Bridges Integrated Automated Eligibility Determination System  The audit concluded that the Department of Human Services (DHS), Department of Community Health (DCH), and Department of Technology, Management & Budget's (DTMB's) efforts to ensure that selected data edits are functioning in Bridges were moderately effective. It noted two reportable conditions. The audit also concluded that DHS, DCH, and DTMB's selected access controls over Bridges were moderately effective. It noted two reportable conditions.	Performance	4	0
431-0592-10	Project Management of the Bridges Integrated Automated Eligibility Determination System  The audit concluded that the Department of Human Services (DHS), Department of Community Health (DCH), and Department of Technology, Management & Budget's (DTMB's) efforts at establishing an effective organizational structure over Bridges were not effective. It noted two material conditions. The audit also concluded that DHS, DCH, and DTMB's efforts in assessing whether the Bridges project achieved the goals and objectives	Performance	3	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	defined by the Departments were not effective. It noted one material condition. In addition, the audit provided a summary of the development and maintenance costs of Bridges.			
<b>JUDICIARY</b>				
950-0150-11	State-Funded Judicial Operations - R	Single	5	0
	The audit included an unqualified opinion on the State-funded judicial operations' financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 5 programs (including 1 ARRA related program) as major programs and identified known questioned costs of \$133,296 and known and likely questioned costs totaling \$199,484. The State-funded judicial operations expended a total of \$8.9 million in federal awards, including \$577,523 of ARRA funding, during the two-year period ended September 30, 2010. The audit included 2 unqualified opinions and 3 qualified opinions on the State-funded judicial operations' compliance with major federal program requirements. The audit identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.			
<b>LEGISLATURE</b>				
900-0140-11	Michigan Legislative Retirement System	Financial	1	0
	The audit included an unqualified opinion on the Michigan Legislative Retirement System financial statements. It identified a significant deficiency in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .			

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF				
511-0160-10	D.J. Jacobetti Home for Veterans  The audit concluded that the D.J. Jacobetti Home for Veterans' efforts to deliver required patient care services were effective. However, it noted three reportable conditions. The audit also concluded that the Home's efforts to control member medications were moderately effective. It noted one reportable condition. In addition, the audit concluded that the Home's efforts in managing member admissions, financial assessments, and donated funds were effective. However, it noted four reportable conditions.	Performance	7	1
NATURAL RESOURCES, DEPARTMENT OF				
<b>Note:</b> Executive Order No. 2011-1, effective March 13, 2011, created the Department of Natural Resources and abolished the Department of Natural Resources and Environment.				
751-0156-10	Recreational Watercraft Access and Harbor Development Activities  The audit concluded that the Department of Natural Resources' (DNR's) process was effective for identifying and was not effective for funding recreational watercraft access and harbor development projects. It noted one material condition and one reportable condition. The audit also concluded that DNR was moderately effective in its efforts to monitor the construction and maintenance of recreational watercraft access and harbor development projects. It noted two reportable conditions. In addition, the audit concluded that DNR was effective and efficient in its efforts to administer the restricted funds for recreational watercraft access and harbor development activities. However, it noted one reportable condition.	Performance	8	1

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<b>NATURAL RESOURCES AND ENVIRONMENT, DEPARTMENT OF</b>			
	<b>Note:</b> Executive Order No. 2011-1, effective March 13, 2011, created the Department of Environmental Quality and the Department of Natural Resources and abolished the Department of Natural Resources and Environment. Audit reports issued before March 13, 2011 can be located under the NATURAL RESOURCES AND ENVIRONMENT heading.			
761-0217-10	Clean Michigan Initiative Environmental Protection Programs  The audit concluded that the Department of Natural Resources and Environment's (DNRE's) efforts to ensure compliance with Clean Michigan Initiative (CMI) laws and regulations related to allowable funding uses were effective. The audit also concluded that DNRE's efforts to establish and evaluate the achievement of program goals for CMI-funded environmental protection programs were effective.	Performance	0	0
761-0590-05F	Selected General and Application Controls  The follow-up of 2 material conditions and 2 corresponding recommendations reported in the performance audit of Selected General and Application Controls (761-0590-05) disclosed that the Department of Natural Resources and Environment and the Department of Technology, Management & Budget had complied with 1 recommendation and had partially complied with 1 recommendation. The follow-up concluded that a reportable condition exists related to 1 finding and 1 corresponding recommendation.	Performance	0	1

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	STATE, DEPARTMENT OF			
231-0100-11	<p>Department of State - R</p> <p>The audit included an unqualified opinion on the Department of State's financial schedules. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify a significant deficiency. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other noncompliance. The audit covered 2 programs as major programs and included 2 unqualified opinions on the Department's compliance with major federal program requirements. The Department expended a total of \$12.1 million in federal awards during the two-year period ended September 30, 2010. The audit did not identify any deficiencies in internal control over federal program compliance that are considered to be material weaknesses. However, it did identify a significant deficiency. It did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>. The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i>) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management &amp; Budget.</p>	Single	1	2
231-0220-10	<p>Selected Activities of the Bureau of Regulatory Services</p> <p>The audit concluded that the Bureau of Regulatory Services' (BRS's) efforts to ensure that driver education instructors and examiners are qualified to instruct and test driver education students were moderately effective. It noted two reportable conditions. The audit also concluded that BRS's efforts to ensure that high-risk drivers comply with the State's driver licensing requirements were moderately effective. It noted one reportable condition. In addition, the audit concluded that BRS's efforts to limit access to licensing data to ensure data security were moderately effective. It noted one reportable condition.</p>	Performance	5	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<b>TECHNOLOGY, MANAGEMENT &amp; BUDGET, DEPARTMENT OF</b>			
071-0010-11	State of Michigan Comprehensive Annual Financial Report, State Budget Office, Fiscal Year 2009-10 - R	Financial	10	3
071-0030-11	* Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Article IX, Section 26 and Section 33), Fiscal Year 2009-10 - R	Financial	N/A	N/A
071-0031-11	* Review of Proportion of Total State Spending From State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Article IX, Section 30), Fiscal Year 2009-10 - R	Financial	N/A	N/A
071-0100-11	Department of Technology, Management & Budget - R  The audit included an unqualified opinion on the Department of Technology, Management & Budget's (DTMB's) financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered one cluster (including 2 ARRA related programs) as a major program and included an unqualified opinion on DTMB's compliance with major federal program requirements. DTMB expended \$359.3 million in federal awards, including \$358.2 million of ARRA funding, during the two-year period ended September 30, 2010. The audit did not report any findings related to internal control over federal program compliance. It also did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DTMB was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.	Single	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
071-0143-11 and 071-0143-11M	<p>State Sponsored Group Insurance Fund, Department of Technology, Management &amp; Budget, Civil Service Commission, and Office of the State Employer - R</p> <p>The audit included an unqualified opinion on the State Sponsored Group Insurance Fund financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the State Sponsored Group Insurance Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified significant deficiencies in internal control over financial reporting. However, it did not consider these significant deficiencies to be material weaknesses. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	3	0
071-0151-11M	<p>Michigan State Employees' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan State Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0152-11M	<p>Michigan Public School Employees' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Public School Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Public School Employees' Retirement System's internal control over financial reporting and on</p>	Financial	1	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>			
071-0153-11M	<p>* Michigan Judges' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Judges' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
071-0154-11M	<p>Michigan State Police Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan State Police Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0



MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
071-0155-11	<p>State of Michigan 457 Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 457 Plan's basic financial statements. It identified a material weakness in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0156-11	<p>State of Michigan 401K Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 401K Plan's basic financial statements. It identified a material weakness in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0182-11	<p>State Building Authority (A Blended Component Unit of the State of Michigan) - R</p> <p>The audit included unqualified opinions on the State Building Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
071-0594-09	<p>Michigan Administrative Information Network (MAIN) Security, State Budget Office and Department of Technology, Management &amp; Budget</p> <p>The audit concluded that the Office of Financial Management (OFM) and the Department of Technology, Management &amp; Budget's (DTMB's) security management controls for MAIN were moderately effective. It noted one material condition and four reportable conditions. The audit also concluded that DTMB's efforts to secure access to critical MAIN operating system, application, and data resources were moderately effective. It noted one material condition.</p>	Performance	7	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**

**Audit and Letter Reports Completed  
During Fiscal Year 2010-11**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
071-0705-10	Procurement Card Program, Financial Services  The audit concluded that the State was moderately effective in utilizing the Procurement Card Program to reduce purchasing costs. It noted one reportable condition. The audit also concluded that selected departments were moderately effective in their efforts to ensure that procurement card usage was in compliance with State policies and procedures. It noted three reportable conditions.	Performance	3	2
084-0507-10	State Unified Information Technology Environment (SUITE) Project Management and System Development Controls  The audit concluded that the Department of Technology, Management & Budget's (DTMB's) efforts to monitor, manage, and implement SUITE were moderately effective. It noted three reportable conditions. The audit also concluded that DTMB's efforts to establish objectives for delivering system development and maintenance projects that are on time, are within budget, and meet customer expectations were moderately effective. It noted one reportable condition.	Performance	4	0
084-0555-05F	Network Application Server Controls  The follow-up of 4 material conditions and 4 corresponding recommendations reported in the performance audit of Network Application Server Controls (084-0555-05) disclosed that the Department of Technology, Management & Budget had not complied with 1 recommendation and had partially complied with 3 recommendations. The follow-up concluded that a material condition still exists relating to 1 finding and 1 corresponding recommendation and that reportable conditions exist relating to 3 findings and 3 corresponding recommendations.	Performance	0	4
<b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b>				
591-0100-11	Michigan Department of Transportation - R  The audit included an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify significant	Single	9	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>deficiencies. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit report covered 5 programs (including 4 ARRA related programs) as major programs and identified known questioned costs of \$61,300. MDOT expended and distributed a total of \$2.7 billion in federal awards, including \$695.3 million of ARRA funding. The audit included 5 unqualified opinions on MDOT's compliance with major federal program requirements. The audit identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that MDOT was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>. The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i>) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management &amp; Budget.</p>			
591-0105-10	<p>Use of Transportation-Related Funding</p> <p>The audit concluded that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, it noted one reportable condition. The audit also concluded that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. In addition, the audit reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information.</p>	Performance	0	2
591-0172-10	<p>Real Estate Division, Bureau of Highway Development</p> <p>The audit concluded that the Michigan Department of Transportation's (MDOT's) efforts to ensure that the fee and permits processes result in safety and financial related outcomes that are in the best interest of the State were moderately effective and efficient. It noted three reportable conditions. The audit also concluded that MDOT's real estate management activities were effective and efficient. However, it noted two reportable conditions.</p>	Performance	3	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
591-0210-11	Mackinac Bridge Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Mackinac Bridge Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
TREASURY, DEPARTMENT OF				
271-0100-11	Department of Treasury - R  The audit included an unqualified opinion on the Department of Treasury's financial schedules. It did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses. However, it did identify significant deficiencies. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered two programs as major programs and identified known questioned costs of \$1.5 million. The Department expended a total of \$3.8 million in federal awards during the two-year period ended September 30, 2010. The audit included one unqualified opinion and one adverse opinion on the Department's compliance with major federal program requirements. It identified material weaknesses and a significant deficiency in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.	Single	4	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0256-11	<p>Transition in the Office of State Treasurer</p> <p>The audit included an unqualified opinion on the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer.</p>	Financial	0	0
271-0265-10	<p>Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury - R</p> <p>The audit included an unqualified opinion on the Emergency 9-1-1 Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
271-0265-11	<p>Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury - R</p> <p>The audit included an unqualified opinion on the Emergency 9-1-1 Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
271-0283-11	<p>Michigan Education Trust Plan D (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0284-11	Michigan Education Trust Plans B and C (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Education Trust Plans B and C financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0340-11	Michigan Finance Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Finance Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0341-11	Report on the Provisions of the Single Audit Act as Applicable to the Michigan Finance Authority - R  The audit included an unqualified opinion on the Michigan Finance Authority's schedule of expenditures of federal awards in relation to the basic financial statements taken as a whole. The audit covered 4 programs as major programs and included 4 unqualified opinions on the Authority's compliance with major federal program requirements. The Authority expended a total of \$298.8 million in federal awards during the two-year period ended September 30, 2010. The audit identified significant deficiencies in internal control over federal program compliance. However, it did not consider these significant deficiencies to be material weaknesses. The audit identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.	Single	2	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**

**Audit and Letter Reports Completed**

**During Fiscal Year 2010-11**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0400-11	<p>Report on the Provisions of the Single Audit Act as Applicable to the Michigan Strategic Fund - R</p> <p>The audit included an unqualified opinion on the Michigan Strategic Fund's schedule of expenditures of federal awards in relation to the basic financial statements taken as a whole. The audit covered one cluster (including 1 ARRA related program) as a major program and included a qualified opinion on the Fund's compliance with major federal program requirements. The Fund expended a total of \$83.7 million in federal awards, including \$85,767 of ARRA funding, during the two-year period ended September 30, 2010. The audit identified significant deficiencies in internal control over federal program compliance and considered one finding to be a material weakness. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>	Single	2	0
271-0401-11	<p>Michigan Strategic Fund (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included unqualified opinions on the Michigan Strategic Fund's basic financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
271-0405-11	<p>Report on the Provisions of the Single Audit Act as Applicable to the Michigan Economic Development Corporation - R</p> <p>The audit included an unqualified opinion on the Michigan Economic Development Corporation's (MEDC's) schedule of expenditures of federal awards in relation to the basic financial statements taken as a whole. The audit covered 2 programs as major programs and included 2 qualified opinions on MEDC's compliance with major federal program requirements. MEDC expended a total of \$1.1 million in federal awards during the two-year period ended September 30, 2010. The audit identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.</p>	Single	2	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0406-11	Michigan Economic Development Corporation (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion of the Michigan Economic Development Corporation's (MEDC's) financial statements. It identified a significant deficiency in internal control over financial reporting. However, it did not consider this significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	1	0
271-0410-10	21st Century Jobs Trust Fund Programs, Michigan Strategic Fund and Strategic Economic Investment and Commercialization Board  The audit concluded that the Michigan Strategic Fund's (MSF's) and the Strategic Economic Investment and Commercialization (SEIC) Board's processes for making investments and awarding grants, loans, and contracts through the 21st Century Jobs Trust Fund programs were effective. However, it noted one reportable condition. The audit also concluded that MSF's processes for monitoring compliance with investment, grant, loan, and contract requirements were moderately effective. It noted one reportable condition. In addition, the audit concluded that MSF's efforts to evaluate the economic development outcomes of the 21st Century Jobs Trust Fund programs were moderately effective. It noted one reportable condition. Further, the audit concluded that MSF and the SEIC Board were in compliance with selected sections of the <i>Michigan Compiled Laws</i> for the 21st Century Jobs Trust Fund programs. However, it noted one reportable condition.	Performance	5	0
271-0415-09F	Michigan Economic Growth Authority Tax Credit Program, Michigan Strategic Fund  The follow-up of 1 material condition and 2 corresponding recommendations reported in the performance audit of the Michigan Economic Growth Authority Tax Credit Program (271-0415-09) disclosed that the Michigan Strategic Fund had complied with the 2 recommendations.	Performance	0	0



**MICHIGAN OFFICE OF THE AUDITOR GENERAL**  
**Audit and Letter Reports Completed**  
**During Fiscal Year 2010-11**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0420-11	<p>Brownfield Redevelopment Financing Program, Department of Environmental Quality, Michigan Economic Growth Authority, and Department of Treasury</p> <p>The audit could not conclude on the effectiveness of the Brownfield Redevelopment Financing Program because of a lack of available performance information for assessing effectiveness. It noted one material condition. The audit concluded that the operations of the Brownfield Redevelopment Financing Program were moderately efficient. It noted one reportable condition. The audit also concluded that the Department of Environmental Quality's (DEQ's) and the Michigan Economic Growth Authority's (MEGA's) efforts to facilitate and support the redevelopment or reuse of eligible property were effective. In addition, the audit concluded that DEQ and MEGA were in compliance and that the Department of Treasury was not in compliance with the annual reporting requirements identified in Act 381, P.A. 1996, as amended. It noted one material condition under the first objective.</p>	Performance	2	0
641-0205-07	<p>Family Housing Programs, Michigan State Housing Development Authority</p> <p>The audit concluded that the Michigan State Housing Development Authority's (MSHDA's) efforts in monitoring compliance with program requirements for multifamily housing developments were moderately effective. It noted two material conditions and two reportable conditions. The audit also concluded that MSHDA was effective in its administration of the Housing Choice Voucher (HCV) Program. However, it noted one material condition under the first objective. In addition, the audit concluded that it was efficient to utilize independent housing voucher agents to oversee the HCV Program. Further, the audit analyzed selected financial information regarding MSHDA and its programs. It noted two material conditions and four reportable conditions.</p>	Performance	11	0
641-0210-09	<p>Community Development and Revitalization Programs, Michigan State Housing Development Authority</p> <p>The audit concluded that the Michigan State Housing Development Authority's (MSHDA's) processes for identifying and awarding funds for projects for selected community development and revitalization programs were moderately effective. However, the audit questioned</p>	Performance	13	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>MSHDA's authority to fund non-housing related activities. It noted one material condition and one reportable condition. The audit also concluded that MSHDA's efforts in measuring and evaluating performance outcomes for selected community development and revitalization programs were moderately effective. It noted one reportable condition. In addition, the audit concluded that MSHDA's efforts in monitoring grants and loans for selected community development and revitalization programs to ensure compliance with program requirements were moderately effective except for the Cities of Promise (COP) Program and the Housing Development Fund (HDF) special project grants, for which MSHDA's efforts in monitoring grants and loans to ensure compliance with program requirements were not effective. It noted five reportable conditions. The audit further concluded that MSHDA's efforts in monitoring contracts for services related to its community development and revitalization programs were moderately effective. It noted one reportable condition. The audit also concluded that MSHDA's security and access controls over the MSHDA Activity Tracking Tool System were not effective. It noted two material conditions.</p>			
641-0425-11	<p>Land Bank Fast Track Authority (A Discretely Presented Component Unit of the State of Michigan) - R</p> <p>The audit included an unqualified opinion on the Land Bank Fast Track Authority's (LBFTA's) basic financial statements. It identified a material weakness and a significant deficiency in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 2 programs (including 1 ARRA related program) as major programs and reported known questioned costs of \$36,372. LBFTA expended a total of \$9.3 million in federal awards, including \$155,000 of ARRA funding, during the two-year period ended September 30, 2010. The audit included 2 qualified opinions on LBFTA's compliance with major federal program requirements. It identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that LBFTA was in substantial</p>	Single	4	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**

**Audit and Letter Reports Completed**

**During Fiscal Year 2010-11**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> . The remaining sections (Sections 18.1483, 18.1484, and 18.1486 - 18.1488 of the <i>Michigan Compiled Laws</i> ) will be evaluated and reported on in the performance audit of the Office of Internal Audit Services, Department of Technology, Management & Budget.			
641-0820-07	<p>Bureau of Workforce Transformation's Oversight of the Michigan Works! Agencies, Workforce Development Agency, Michigan Strategic Fund</p> <p>The audit concluded that the Bureau of Workforce Transformation (BWT) was not effective and efficient in its efforts to oversee selected activities of Michigan Works! Agencies (MWAs). It noted one material condition and two reportable conditions. The audit also concluded that BWT was moderately effective and efficient in its fiscal oversight of MWAs. It noted two reportable conditions. In addition, the audit could not determine the effectiveness of BWT's efforts to help individuals secure employment in long-term growth occupations because of the lack of information available to evaluate participant activity for extended periods of time. Further, the audit responded to the legislative request for specific information related to No Worker Left Behind by presenting two unaudited exhibits.</p>	Performance	5	0
<b>UNIVERSITIES AND COLLEGES</b>				
032-0250-10	<p>Macomb Community College</p> <p>The audit concluded that Macomb Community College was efficient in its use of educational program resources. It noted two reportable conditions. The audit also concluded that the College was effective in its efforts to evaluate the quality of its educational programs. In addition, the audit concluded that the College's admissions and monitoring practices were effective in helping students successfully complete their classes and programs.</p>	Performance	2	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2010-11

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
032-0270-09	Monroe County Community College  The audit concluded that Monroe County Community College was effective in its efforts to evaluate the quality and outcomes of its educational programs. The audit also concluded that the College's admissions and monitoring practices were effective in helping students successfully complete their classes and programs. In addition, the audit concluded that the College was efficient in its use of educational program resources. However, it noted one reportable condition.	Performance	1	0
			<u>256</u>	<u>42</u>

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

\* Letter report.  
R Audit required by law.  
N/A Not applicable.

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	AGRICULTURE AND RURAL DEVELOPMENT, MICHIGAN DEPARTMENT OF			
791-0111-06F	Motor Fuel Quality and Quantity Inspections and Enforcement Efforts, Laboratory Division	Performance	0	0
	The follow-up of the material condition and corresponding recommendation reported in the performance audit of the Motor Fuel Quality and Quantity Inspections and Enforcement Efforts, Laboratory Division, Department of Agriculture (791-0111-06), disclosed that the Michigan Department of Agriculture and Rural Development complied with the recommendation.			
	COMMUNITY HEALTH, DEPARTMENT OF			
391-0100-12	Department of Community Health - R	Single	7	6
	The audit included an unqualified opinion on the Department of Community Health's (DCH's) financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 11 programs (including 3 programs with ARRA funding) as major programs and identified known questioned costs of \$35,616. DCH expended a total of \$19.5 billion in federal awards, including \$2.0 billion of ARRA funding, during the two-year period ended September 30, 2011. The audit included 10 unqualified opinions and 1 adverse opinion on DEQ's compliance with major federal program requirements. It identified a material weakness and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DCH was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> .			

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
391-0145-04F	<p>Vital Records and Health Data Statistics, Bureau of Local Health and Administrative Services</p> <p>The follow-up of 2 material conditions, 9 reportable conditions, and 13 corresponding recommendations reported in the performance audit of Vital Records and Health Data Statistics, Bureau of Epidemiology, Department of Community Health (DCH), 391-145-04, disclosed that DCH had complied with 6 recommendations, had substantially complied with 3 recommendations, had partially complied with 2 recommendations, and had not complied with 2 recommendations. The follow-up concluded that reportable conditions exist related to 4 findings and 4 corresponding recommendations.</p>	Performance	0	4
391-0560-11	<p>Hospital and Health Plan Reimbursement Division, Medical Services Administration</p> <p>The audit concluded that the Hospital and Health Plan Reimbursement Division's (HHPRD's) efforts to complete accurate and timely cost settlements were moderately effective. It noted four reportable conditions. The audit also concluded that HHPRD's efforts to obtain and use accurate data when setting provider reimbursement rates were effective.</p>	Performance	4	0
391-0570-11	<p>Long-Term Care Nursing Facility Medicaid Reimbursement and Rate Setting Process</p> <p>The audit concluded that the Department of Community Health's (DCH's) efforts were moderately effective in ensuring a timely and accurate rate setting process for long-term care at nursing facilities. It noted one reportable condition. The audit also concluded that DCH's efforts were moderately effective in ensuring a timely and accurate cost settlement process for long-term care at nursing facilities. It noted two reportable conditions. In addition, the audit concluded that DCH's efforts were effective in evaluating alternative reimbursement methodologies for long-term care at nursing facilities.</p>	Performance	3	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**  
**Audit and Letter Reports Completed**  
**During Fiscal Year 2011-12**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
391-0592-11	<p>Michigan Women, Infants, and Children Information System (MI-WIC)</p> <p>The audit concluded that the Department of Community Health (DCH) and the Department of Technology, Management, and Budget's (DTMB's) security and access controls over the Michigan Women, Infants, and Children Information System (MI-WIC) database were moderately effective. It noted one material condition and two reportable conditions. The audit also concluded that DCH's efforts to control high-risk access to MI-WIC were effective. It noted one reportable condition. Further, the audit concluded that DCH's efforts to establish application controls over the processing of client data within MI-WIC were effective.</p>	Performance	4	0
391-0645-10	<p>Office of Services to the Aging's Community Services Division and State Long Term Care Ombudsman</p> <p>The audit concluded that the Office of Services to the Aging's Community Services Division's (OSA-CSD's) efforts to monitor area agencies on aging (AAAs) in providing services to older adults in Michigan were not effective. It noted two material conditions and two reportable conditions. The audit also concluded that the Office of Services to the Aging's State Long Term Care Ombudsman's (OSA-SLTCO's) efforts to monitor the timely and appropriate resolution of complaints relating to services provided to older adults were moderately effective. It noted one material condition.</p>	Performance	8	0
391-0702-05F	<p>Court Originated Liability Section, Medical Services Administration</p> <p>The follow-up of 7 material conditions and 11 corresponding recommendations reported in the performance audit of the Court Originated Liability Section, Medical Services Administration, Department of Community Health (DCH), 391-0702-05, disclosed that DCH had complied with 7 recommendations, had partially complied with 3 recommendations, and had not complied with 1 recommendation. The follow-up concluded that reportable conditions exist related to 2 findings and 2 corresponding recommendations.</p>	Performance	0	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
CORRECTIONS, DEPARTMENT OF				
471-0100-12	<p>Department of Corrections - R</p> <p>The audit included an unqualified opinion on the Department of Corrections' (DOC's) financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i>. The audit covered 9 programs (including 1 ARRA related program) as major federal programs. DOC expended a total of \$16.6 million in federal awards (including \$7.3 million of ARRA funding) during the two-year period ended September 30, 2011. The audit included 8 unqualified opinions and 1 qualified opinion on DOC's compliance with major federal program requirements. It identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DOC was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>.</p>	Single	4	0
471-0276-12	<p>Central Michigan Correctional Facility</p> <p>The audit concluded that the Department of Corrections' (DOC's) efforts to comply with selected policies and procedures related to safety and security at the Central Michigan Correctional Facility were moderately effective. It noted one material condition and eleven reportable conditions.</p>	Performance	14	0
471-0400-11	<p>Michigan Prisoner ReEntry Initiative (MPRI)</p> <p>The audit concluded that the Michigan Prisoner ReEntry Initiative (MPRI) was moderately effective in its efforts to oversee MPRI services. It noted 2 reportable conditions.</p>	Performance	2	0
471-0591-04F	<p>Accuracy of Prisoner Release Dates</p> <p>The follow-up of 2 material conditions and 2 corresponding recommendations reported in the performance audit of the Accuracy of Prisoner Release Dates, Department of Corrections (DOC) and Department of Information Technology, which is now the Department</p>	Performance	0	2



MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	of Technology, Management, and Budget (DTMB), 47-591-04, disclosed that DOC and DTMB had partially complied with both recommendations. The follow-up concluded that reportable conditions exist related to 2 findings and 2 corresponding recommendations.			
<b>EDUCATION, MICHIGAN DEPARTMENT OF</b>				
313-0100-12	Michigan Department of Education - R  The audit included unqualified opinions on the Michigan Department of Education's (MDE's) financial schedules and on the School Aid Fund's financial statements. It did not identify any material weaknesses in internal control over financial reporting; however, it did identify significant deficiencies. It did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 19 programs (including 7 programs with ARRA funding) as major programs and identified known questioned costs of \$9.5 million. MDE expended a total of \$5.2 billion in federal awards, including \$1.4 billion of ARRA funding, during the two-year period ended September 30, 2011. The audit included 18 unqualified opinions and 1 adverse opinion on MDE's compliance with major federal program requirements. It identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that MDE was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> .	Single	14	5
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>				
761-0100-12	Department of Environmental Quality - R  The audit included unqualified opinions on the Department of Environmental Quality's (DEQ's) financial statements and financial schedules. It did not report any findings related to internal control over financial reporting. It identified an instance of noncompliance or other matters	Single	5	5

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>applicable to the financial statements and/or financial schedules that is required to be reported under <i>Government Auditing Standards</i>. The audit covered 12 programs (including 4 American Recovery and Reinvestment Act [ARRA] related programs) as major programs and identified known questioned costs of \$18,987. DEQ expended a total of \$397.5 million in federal awards, including \$215.8 million of ARRA funding, during the two-year period ended September 30, 2011. The audit included 11 unqualified opinions and 1 qualified opinion on DEQ's compliance with major federal program requirements. It identified a material weakness and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DEQ was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>.</p>			
761-0120-99F	<p>Public Drinking Water Supply Program</p> <p>The follow-up of 3 material conditions and 5 corresponding recommendations reported in the performance audit of the Public Drinking Water Supply Program, Department of Environmental Quality (DEQ), 761-0120-99, disclosed that DEQ had complied with 4 recommendations and had partially complied with 1 recommendation. The follow-up concluded that a material condition exists relating to 1 finding and 1 corresponding recommendation.</p>	Performance	0	1
761-0143-11	<p>Fee Adequacy Within the Air Quality Division</p> <p>The audit concluded that the statutory fees for the Renewable Operating Permit (ROP) Program were not sufficient to meet the minimum requirements of the Clean Air Act. However, the Department of Environmental Quality carried forward fees from prior years to sufficiently cover expenditures. Section 324.5521(2) of the <i>Michigan Compiled Laws</i> allows fees from the ROP Program to carry forward to subsequent years and not lapse to the State General Fund. The audit noted two reportable conditions.</p>	Performance	2	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
HUMAN SERVICES, DEPARTMENT OF				
431-0279-11	<p>Youth Transitioning From Foster Care to Self-Sufficiency</p> <p>The audit concluded that the Department of Human Services' (DHS's) efforts to evaluate services provided to youth transitioning from foster care to self-sufficiency were not effective. It noted one material condition. The audit also concluded that DHS's efforts to ensure propriety and reasonableness of discretionary payments and post-secondary educational assistance payments made on behalf of youth transitioning from foster care to self-sufficiency were moderately effective. It noted one material condition and one reportable condition. In addition, the audit concluded that DHS's efforts to ensure that training for case workers is tailored to address youth transitioning from foster care to self-sufficiency were effective.</p>	Performance	5	0
431-0285-05F	<p>Client Eligibility Oversight, Error Identification, and Error Prevention Processes for Selected Public Assistance Programs</p> <p>The follow-up of 1 material condition and 2 corresponding recommendations reported in the performance audit of Client Eligibility Oversight, Error Identification, and Error Prevention Processes for Selected Public Assistance Programs, Department of Human Services (DHS), 431-0285-05, disclosed that DHS had complied with one recommendation and had partially complied with the other recommendation. The follow-up concluded that a material condition still exists.</p>	Performance	0	1
431-0316-06F	<p>Training and Staff Development</p> <p>The follow-up of 2 material conditions, 2 reportable conditions, and 5 corresponding recommendations reported in the performance audit of Training and Staff Development, Department of Human Services (DHS), 431-0316-06, disclosed that DHS had complied with 2 recommendations, had substantially complied with 1 recommendation, and had partially complied with 2 recommendations. The follow-up concluded that reportable conditions exist related to 2 findings and 2 corresponding recommendations.</p>	Performance	0	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
JUDICIARY				
950-0605-11	<p>Selected Probate Court Conservatorship and Guardianship Cases</p> <p>The audit determined that the assertions contained in the conservators' and guardians' required probate court filings were generally accurate and valid. It noted one reportable condition. Also, the audit concluded that probate courts' efforts to oversee conservatorship and guardianship cases were moderately effective. It noted four reportable conditions.</p>	Performance	5	0
LEGISLATURE				
900-0140-12	<p>* Michigan Legislative Retirement System</p> <p>The audit included an unqualified opinion on the Michigan Legislative Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Legislative Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	0	0
LICENSING AND REGULATORY AFFAIRS				
641-0207-08F	<p>Michigan Tax Tribunal</p> <p>The follow-up of the material condition and corresponding recommendation reported in the performance audit of the Michigan Tax Tribunal, Department of Energy, Labor &amp; Economic Growth (641-0207-08F), disclosed that the Department of Licensing and Regulatory Affairs (LARA) partially complied with the recommendation. The follow-up concluded that a reportable condition exists related to cases pending scheduling for more than 6 months.</p>	Performance	0	1

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**  
**Audit and Letter Reports Completed**  
**During Fiscal Year 2011-12**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
641-0246-11	<p>Rehabilitation Service Expenditures, Michigan Rehabilitation Services</p> <p>The audit concluded that Michigan Rehabilitation Services' (MRS's) efforts to ensure the propriety of service payments were moderately effective. It noted five reportable conditions. The audit also concluded that MRS's efforts to facilitate the coordination of benefits and services were moderately effective. It noted one reportable condition. In addition, the audit concluded that MRS's efforts to determine that services resulted in viable and sustainable employment were effective.</p>	Performance	6	0
641-0316-11	<p>Collection of Delinquent Unemployment Taxes and Reimbursements, Unemployment Insurance Agency</p> <p>The audit concluded that the Unemployment Insurance Agency's efforts to maximize its collection of delinquent unemployment taxes and reimbursements were neither effective nor efficient. It noted four material conditions and two reportable conditions.</p>	Performance	9	0
<b>MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF</b>				
511-0100-08F	<p>Department of Military and Veterans Affairs (Revised) - R</p> <p>The audit included an unqualified opinion on the Department of Military and Veterans Affairs' financial statements. It identified a material weakness and significant deficiencies in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other instances of noncompliance. The audit covered 3 programs as major programs and identified known questioned costs of \$1.6 million. The Department expended a total of \$168.7 million in federal awards during the two-year period ended September 30, 2007. The audit included 1 unqualified opinion and 2 qualified opinions on the Department's compliance with major federal program requirements. It identified material weaknesses and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management</p>	Single	10	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	and Budget (OMB) Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the <i>Michigan Compiled Laws</i> .			
511-0100-12	Department of Military and Veterans Affairs - R  The audit included an unqualified opinion on the Department of Military and Veterans Affairs' (DMVA's) financial statements. It did not identify any material weaknesses in internal control over financial reporting; however, it did identify significant deficiencies. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> . However, it did identify other noncompliance. The audit covered 4 programs (including 1 ARRA related program) and identified known questioned costs of \$7.6 million. DMVA expended and distributed \$200.6 million in federal awards, including \$11.1 million in ARRA funding, during the two-year period ended September 30, 2011. The audit included 3 unqualified opinions and 1 adverse opinion on DMVA's compliance with major federal program requirements. It identified a material weakness and significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DMVA was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> .	Single	2	8
511-0410-11	Emergency Grant Program  The audit concluded that the Michigan Veterans' Trust Fund Board's administration of the Emergency Grant Program was not efficient. It noted one material condition and one reportable condition.	Performance	2	0
NATURAL RESOURCES, DEPARTMENT OF				
751-0100-12	Department of Natural Resources - R  The audit included unqualified opinions on the Department of Natural Resources' (DNR's) financial statements and financial schedules. It identified a	Single	8	2

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>material weakness and a significant deficiency in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements and financial schedules that are required to be reported under <i>Government Auditing Standards</i>. However, it did identify other noncompliance. The audit covered 7 programs (including 1 American Recovery and Reinvestment Act [ARRA] related program) as major programs and identified known questioned costs of \$177,112. DNR expended a total of \$95.0 million in federal awards, including \$3.1 million in ARRA funding, during the two-year period ended September 30, 2011. The audit included 7 unqualified opinions on DNR's compliance with major federal program requirements. It identified significant deficiencies in internal control over federal program compliance. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that DNR was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i>.</p>			
751-0155-11	<p>Real Estate Acquisitions, Dispositions, and Land Holdings</p> <p>The audit concluded that the Department of Natural Resources (DNR) was moderately effective in its efforts to ensure that real estate acquisitions, dispositions, and land holdings support DNR's mission and initiatives. It noted two reportable conditions. The audit also concluded that DNR was effective in its administration of real estate acquisition and disposition transactions.</p>	Performance	3	0
751-0156-10F	<p>Recreational Watercraft Access and Harbor Development Activities</p> <p>The follow-up of 1 material condition and 3 corresponding recommendations reported in the performance audit of the Recreational Watercraft Access and Harbor Development Activities, Department of Natural Resources (DNR), 751-0156-10F, disclosed that DNR had complied with all 3 recommendations.</p>	Performance	0	0
751-0590-11	<p>Retail Sales System (RSS)</p> <p>The audit concluded that the Department of Natural Resources and the Department of Technology, Management, and Budget's efforts to ensure the accurate</p>	Performance	3	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	processing of hunting and fishing license data in RSS were moderately effective. It noted three reportable conditions.			
	STATE, DEPARTMENT OF			
231-0235-11	Bureau of Elections  The audit concluded that the Bureau of Elections' (BOE's) efforts were moderately effective in providing reliable and secure registered voter information in the Qualified Voter File (QVF). It noted three reportable conditions. The audit also concluded that BOE's efforts were moderately effective in administering required training programs in compliance with the Michigan Election Law and federal Help America Vote Act (HAVA). It noted two reportable conditions. In addition, the audit concluded that BOE's efforts were moderately effective in complying with reporting and disclosure requirements of the Michigan Campaign Finance Act, Lobby Act, and Casino Interest Registration Act. It noted three reportable conditions.	Performance	9	0
231-0590-11	Business Application Modernization (BAM) Project, Department of State and Department of Technology, Management, and Budget  The audit concluded that the Department of State (DOS) and the Department of Technology, Management, and Budget's (DTMB's) efforts to provide oversight of the development of the BAM project were not effective. It noted six material conditions, six reportable conditions, and one observation. Also, the audit included a summary of the development costs of the BAM project. In addition, the audit reported on the status of the development and implementation of the BAM project, which DOS and DTMB continued to work on as of the end of our audit fieldwork. The audit included one observation and four exhibits related to the third objective.	Performance	15	0



MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
STATE POLICE, DEPARTMENT OF				
551-0100-12	Michigan Department of State Police  The audit included an unqualified opinion on the Michigan Department of State Police's (MSP's) financial schedules. It did not report any findings related to internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> . The audit covered 8 major programs (including 2 ARRA related programs). MSP expended and distributed \$212.9 million in federal awards, including \$37.5 million in ARRA funding, during the two-year period ended September 30, 2011. The audit included 8 unqualified opinions. It did not identify any deficiencies in internal control over federal program compliance that are considered to be material weaknesses. However, it did identify significant deficiencies. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. The audit determined that MSP was in substantial compliance with Section 18.1485 of the <i>Michigan Compiled Laws</i> .	Single	5	0
551-0101-12	Michigan Justice Training Fund, Michigan Commission on Law Enforcement Standards  The audit included an unqualified opinion on the Michigan Justice Training Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
551-0146-11	Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury  Our audit concluded that the Michigan Department of State Police (MSP) and the Department of Treasury's efforts were moderately effective in ensuring the collection of emergency 9-1-1 service charge revenue. It noted one material condition. Also, the audit could not conclude on the effectiveness of MSP's efforts in establishing the emergency 9-1-1 county service charge rate for prepaid service users because the legislation is unclear. It noted	Performance	3	0

**MICHIGAN OFFICE OF THE AUDITOR GENERAL**

**Audit and Letter Reports Completed**

**During Fiscal Year 2011-12**

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	one reportable condition. In addition, the audit concluded that MSP's efforts were moderately effective in monitoring public safety answering point (PSAP) expenditures of the Emergency 9-1-1 Fund distributions. It noted one reportable condition.			
551-0595-04F	Sex Offender Registries  The follow-up of 1 material condition and 1 corresponding recommendation reported in the performance audit of the Sex Offender Registries, Michigan Department of State Police (MSP), 551-0595-04, disclosed that MSP had complied with the recommendation.	Performance	0	0
<b>TECHNOLOGY, MANAGEMENT, AND BUDGET, DEPARTMENT OF</b>				
071-0010-12	<i>State of Michigan Comprehensive Annual Financial Report</i> State Budget Office, Fiscal Year 2010-11 - R	Financial	4	0
071-0030-12	* Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Article IX, Section 26 and Section 33), Fiscal Year 2010-11 - R	Financial	N/A	N/A
071-0031-12	* Review of Proportion of Total State Spending From State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Article IX, Section 30), Fiscal Year 2010-11 - R	Financial	N/A	N/A
071-0137-12	Selected Internal Service Fund Activities  The audit concluded that the Department of Technology, Management, and Budget's (DTMB's) efforts to recover the actual costs of the services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund were effective. The audit also concluded that DTMB's efforts to ensure that billings to its customers reflect the appropriate costs of those services provided through the Information Technology Fund, Motor Transport Fund, and Office Services Revolving Fund were effective.	Performance	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
071-0151-12M	<p>Michigan State Employees' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan State Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0152-12M	<p>Michigan Public School Employees' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Public School Employees' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Public School Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified a significant deficiency in internal control over financial reporting. However, it did not consider the significant deficiency to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0153-12M	<p>* Michigan Judges' Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan Judges' Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with</p>	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL  
Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under Government Auditing Standards.</p>			
071-0154-12M	<p>Michigan State Police Retirement System - R</p> <p>The audit included an unqualified opinion on the Michigan State Police Retirement System financial statements. In accordance with <i>Government Auditing Standards</i>, we also issued a report on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.</p> <p>The audit identified significant deficiencies in internal control over financial reporting. However, it did not consider the significant deficiencies to be material weaknesses. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	2	0
071-0155-12	<p>State of Michigan 457 Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 457 Plan's basic financial statements. The audit did not identify any deficiencies in internal control over financial reporting that were considered to be material weaknesses. However, it did identify a significant deficiency. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0
071-0156-12	<p>State of Michigan 401K Plan - R</p> <p>The audit included an unqualified opinion on the State of Michigan 401K Plan's basic financial statements. It identified a material weakness in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i>.</p>	Financial	1	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed  
During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
071-0510-05F	<p>Statewide Information Technology Contracting Practices</p> <p>The follow-up of 4 material conditions and 4 corresponding recommendations reported in the performance audit of Statewide Information Technology Contracting Practices (071-0510-05) disclosed that the Department of Technology, Management, and Budget (DTMB) had partially complied with 3 recommendations and had not complied with 1 recommendation. The follow-up concluded that a material condition still exists related to 1 finding and 1 corresponding recommendation and that reportable conditions exist related to 3 findings and 3 corresponding recommendations.</p>	Performance	0	4
071-0562-12	<p>Wireless Local Area Network (WLAN) Security</p> <p>The audit concluded that the Department of Technology, Management, and Budget's (DTMB's) efforts to design and implement a secure WLAN infrastructure were effective. The audit also concluded that DTMB's efforts to monitor the security of the State's WLAN were moderately effective. It noted two reportable conditions. In addition, the audit concluded that DTMB's efforts to implement standards and procedures for the deployment, administration, and monitoring of the State's WLAN were moderately effective. It noted one reportable condition.</p>	Performance	3	0
084-0580-06F	<p>Date Center Operations</p> <p>The follow-up of 3 material conditions and 4 corresponding recommendations reported in the performance audit of Data Center Operations, Department of Information Technology (084-0580-06), disclosed that the Department of Technology, Management, and Budget (DTMB) had partially complied with the 4 recommendations. The follow-up concluded that 1 material condition still exists related to 1 finding and reportable conditions exist related to 2 findings and 3 corresponding recommendations.</p>	Performance	0	4
<b>TRANSPORTATION, MICHIGAN DEPARTMENT OF</b>				
591-0190-11	<p>Office of Aeronautics</p> <p>The audit concluded that the Office of Aeronautics was moderately effective in its efforts to comply with selected sections of the <i>Michigan Compiled Laws</i> and Michigan Department of Transportation (MDOT) policies and</p>	Performance	4	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
	<p>procedures. It noted one material condition and one reportable condition. The audit also concluded that the Office of Aeronautics' licensing functions for flight schools and general aviation airports were moderately effective. It noted one reportable condition. In addition, the audit concluded that the Office of Aeronautics' efforts to provide services to pilots were effective. However, it noted one reportable condition. Further, the audit concluded that the Office of Aeronautics' governance of MDOT-owned airports was effective.</p>			
591-0300-11	<p>Measurement of State Highway Pavement Conditions</p> <p>The audit concluded that the Michigan Department of Transportation's (MDOT's) efforts in measuring State highway pavement conditions were effective. However, it noted three reportable conditions. The audit also concluded that MDOT's efforts in measuring State highway pavement conditions were efficient. However, it noted one reportable condition. In addition, the audit compiled and reported selected State highway pavement condition statistics and trends.</p>	Performance	5	0
591-0410-12	<p>Administration of Act 51, P.A. 1951, as Amended</p> <p>The audit concluded that the Michigan Department of Transportation's (MDOT's) efforts in monitoring the use of transportation dedicated funds in compliance with Act 51, P.A. 1951, as amended, were effective. It also concluded that the Department of Treasury's efforts in monitoring the use of transportation dedicated funds in compliance with Act 51, 1951, as amended, were not effective. It noted one material condition. The audit also concluded that MDOT's efforts to ensure that transportation dedicated funds were allocated, distributed, and reported in compliance with Act 51, P.A. 1951, as amended, were effective.</p>	Performance	1	0
	<b>TREASURY, DEPARTMENT OF</b>			
271-0220-07F	<p>Severance and Motor Carrier Fuel Tax Collections</p> <p>The follow-up of 1 material condition and 1 corresponding recommendation reported in the performance audit of Severance and Motor Carrier Fuel Tax Collections (271-0220-07) disclosed that the Department of Treasury had partially complied with the recommendation. The follow-up concluded that a material condition still exists.</p>	Performance	0	1

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0265-12	Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury  The audit included an unqualified opinion on the Emergency 9-1-1 Fund's financial schedules. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0283-12	Michigan Education Trust Plan D (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0
271-0284-12	Michigan Education Trust Plans B and C (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Education Trust Plans B and C financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required under <i>Government Auditing Standards</i> .	Financial	0	0
271-0340-12	Michigan Finance Authority (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included unqualified opinions on the Michigan Finance Authority's financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	0	0

MICHIGAN OFFICE OF THE AUDITOR GENERAL

Audit and Letter Reports Completed

During Fiscal Year 2011-12

Project Number	Report Title	Project Type	Recommendations	
			New	Repeated
271-0401-12	Michigan Strategic Fund (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included unqualified opinions on the Michigan Strategic Fund's financial statements. It identified a material weakness in internal control over financial reporting. It did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under <i>Government Auditing Standards</i> .	Financial	1	0
271-0406-12	Michigan Economic Development Corporation (A Discretely Presented Component Unit of the State of Michigan) - R  The audit included an unqualified opinion on the Michigan Economic Development Corporation's basic financial statements. It did not report any findings related to internal control over financial reporting. It also did not identify any instances of noncompliance or other matters applicable to the financial statements that are required under <i>Government Auditing Standards</i> .	Financial	0	0
			<u>176</u>	<u>48</u>



# GLOSSARY

## Glossary of Commonly Used Financial Audit Terms (Including Single Audit Terms)

adverse opinion	See "auditor's opinion" for definition.
auditor's opinion	<p>The Office of the Auditor General issues opinions, as applicable, on financial statements, financial schedules, supplemental financial information, and compliance with requirements for major federal programs. The types of auditor's opinions are:</p> <p><b>a. Unqualified opinion:</b></p> <ul style="list-style-type: none"><li>(1) Financial presentation: An unqualified opinion states that the financial statements, financial schedules, or supplemental financial information are fairly presented in conformity with generally accepted accounting principles.</li><li>(2) Compliance: An unqualified opinion states that the audited entity complied, in all material respects, with the cited compliance requirements applicable to each major federal program.</li></ul> <p><b>b. Qualified opinion:</b></p> <ul style="list-style-type: none"><li>(1) Financial presentation: A qualified opinion identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial statements, financial schedules, or supplemental financial information.</li><li>(2) Compliance: A qualified opinion identifies a scope limitation or material noncompliance with one or more of the cited compliance requirements applicable to each major federal program.</li></ul> <p><b>c. Adverse opinion:</b></p> <ul style="list-style-type: none"><li>(1) Financial presentation: An adverse opinion states that the financial statements, financial schedules, or supplemental financial information are not fairly presented in conformity with generally accepted accounting principles.</li><li>(2) Compliance: An adverse opinion states that the audited entity did not comply, in all material respects, with the cited compliance requirements applicable to each major federal program.</li></ul>
CFDA	<i>Catalog of Federal Domestic Assistance</i> ; the catalog that provides a full listing, with detailed program descriptions, of all federal programs available to state and local governments.

CFR	<i>Code of Federal Regulations</i> ; the codification of the general and permanent rules published by the departments and agencies of the federal government.
cluster	A grouping of closely related federal programs that have similar compliance requirements. Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.
deficiency in internal control over federal program compliance	<p>The design or operation of a control over compliance that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. These deficiencies are typically categorized as significant or material:</p> <ul style="list-style-type: none"> <li>a. <b>Significant deficiency in internal control over federal program compliance:</b> A deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.</li> <li>b. <b>Material weakness in internal control over federal program compliance:</b> A deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.</li> </ul>
deficiency in internal control over financial reporting	<p>The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. These deficiencies are typically categorized as significant or material:</p> <ul style="list-style-type: none"> <li>a. <b>Significant deficiency in internal control over financial reporting:</b> A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.</li> <li>b. <b>Material weakness in internal control over financial reporting:</b> A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.</li> </ul>
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.

GAAP	generally accepted accounting principles; a technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time. Also cited as "accounting principles generally accepted in the United States of America."
GASB	Governmental Accounting Standards Board; an arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual single audit and it meets other criteria related to prior audit results. In accordance with State statute, this single audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on <i>[insert "major federal programs or on" for single audits]</i> financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	See "deficiency in internal control over federal program compliance" for definition.
material weakness in internal control over financial reporting	See "deficiency in internal control over financial reporting" for definition.
OMB	U.S. Office of Management and Budget; a cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.
other noncompliance	Violations of contracts or grant agreements that are not material to the financial schedules or financial statements but should be communicated to management in accordance with <i>Government Auditing Standards</i> . Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with <i>Government Auditing Standards</i> .

qualified opinion	See "auditor's opinion" for definition.
questioned cost	<p>A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.</p> <p>After the audit report is filed with the federal audit clearinghouse, the responsible federal agency is required to issue a management decision within six months of the receipt of the audit report. The management decision may include a request for the return of the known questioned costs.</p>
significant deficiency in internal control over federal program compliance	See "deficiency in internal control over federal program compliance" for definition.
significant deficiency in internal control over financial reporting	See "deficiency in internal control over financial reporting" for definition.
single audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a single audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
unqualified opinion	See "auditor's opinion" for definition.

## Glossary of Commonly Used Performance Audit Terms

audit finding	<p>The Office of the Auditor General categorizes its audit findings as either reportable conditions or material conditions:</p> <ul style="list-style-type: none"><li>a. <b>Reportable condition:</b> A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.</li><li>b. <b>Material condition:</b> A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.</li></ul>
continuous quality improvement (CQI)	<p>A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.</p>
effectiveness	<p>Success in achieving mission and goals.</p>
efficiency	<p>Achieving the most outputs and the most outcomes practical with the minimum amount of resources.</p>
goal	<p>An intended outcome of a program or an entity to accomplish its mission.</p>
input	<p>A resource (e.g., staff hours or expenditures) that is consumed in producing outputs.</p>
internal control	<p>The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.</p>
material condition	<p>See "audit finding" for definition.</p>
mission	<p>The main purpose of a program or an entity or the reason that the program or the entity was established.</p>

objective	Specific outcome(s) that a program or an entity seeks to achieve its goals.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.
outcome	An actual impact of a program or an entity.
output	A product or a service produced by a program or an entity.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
performance measures	A composite of key indicators of a program's or an activity's inputs, outputs, outcomes, productivity, timeliness, and/or quality. Performance measures are a means of evaluating policies and programs by measuring results against agreed upon program goals or standards.
performance measurement system	A system for capturing and processing data to determine if a program or an entity is achieving its goals.
performance standard	A desired level of output or outcome.
reportable condition	See "audit finding" for definition.







OFFICE OF THE  
AUDITOR GENERAL

201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
TEL 517.334.8050  
FAX 517.334.8079

<http://audgen.michigan.gov>