



OAG

Office of the Auditor General

Independent

Objective

Transparent

Annual Report 2014



Doug A. Ringler, C.P.A., C.I.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*



Doug A. Ringler, C.P.A., C.I.A.
Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Ladies and Gentlemen:

I am pleased to enclose our fiscal year 2014 annual report. It details aspects of our office operations and the audit reports we issued during the past fiscal year. Article IV, Section 53 of the Michigan Constitution establishes the Office of the Auditor General's authority and requires this annual report.

During fiscal year 2014, we issued 40 performance audits in addition to 20 financial audits and letter reports. Our annual financial audit of the *State of Michigan Comprehensive Annual Financial Report* and our Statewide Single Audit, which we performed to assess compliance with federal regulations, are the largest use of our human resources. We also completed value-driven audits in the areas of the Medicaid Home Help Program, Adult Protective Services, the Bureau of Fire Services and State Fire Marshal, the Michigan Veterans Affairs Agency, Member Data of the Michigan Public School Employees' Retirement System, the Michigan Business One Stop System, and Homeownership Programs, among many others.

As we move into fiscal year 2015, we are focusing our efforts in two key areas:

1. Enhanced Communications

In September 2014, we began to provide you with a monthly synopsis of our activities, a list of all work in process, and a performance audit report summary in a concise table format. Also, we created a publicly available preliminary survey summary for each performance audit that we terminated after the preliminary stage because we did not identify significant concerns. Going forward, our communication plans include improving report readability, sharing a six-month audit plan, and meeting newly-elected State officials to provide an overview of the office and our responsibilities.

2. Organizational Efficiencies

Since becoming Auditor General in June 2014, I have continued to evaluate and implement opportunities to streamline our organization and maximize the benefit derived from our appropriations. Deputy Auditor General Laura Hirst and I are restructuring the Bureau of Audit Operations to align audit divisions by audit type rather than by State agency. Currently, we are evaluating options to improve the efficiency and effectiveness of our information systems and quality assurance areas.

I am honored to lead a group of engaged, enthusiastic, and diverse professionals who are dedicated to improving State government operations in an independent, objective, and transparent manner. We welcome the opportunity to provide information to assist in your decision-making. Please do not hesitate to contact us to request our services.

Sincerely,

Doug Ringler
Auditor General
November 6, 2014

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OAG

Office of the Auditor General

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Office of the Auditor General

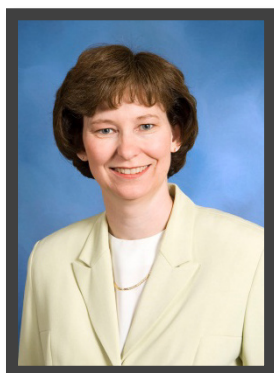
Directory



Doug A. Ringler, C.P.A., C.I.A.
Auditor General



Laura J. Hirst, C.P.A.
Deputy Auditor General



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



Craig M. Murray, C.P.A., C.I.A.
Director of Professional Practice



Kelly C. Miller, M.P.A.
State Relations Officer



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



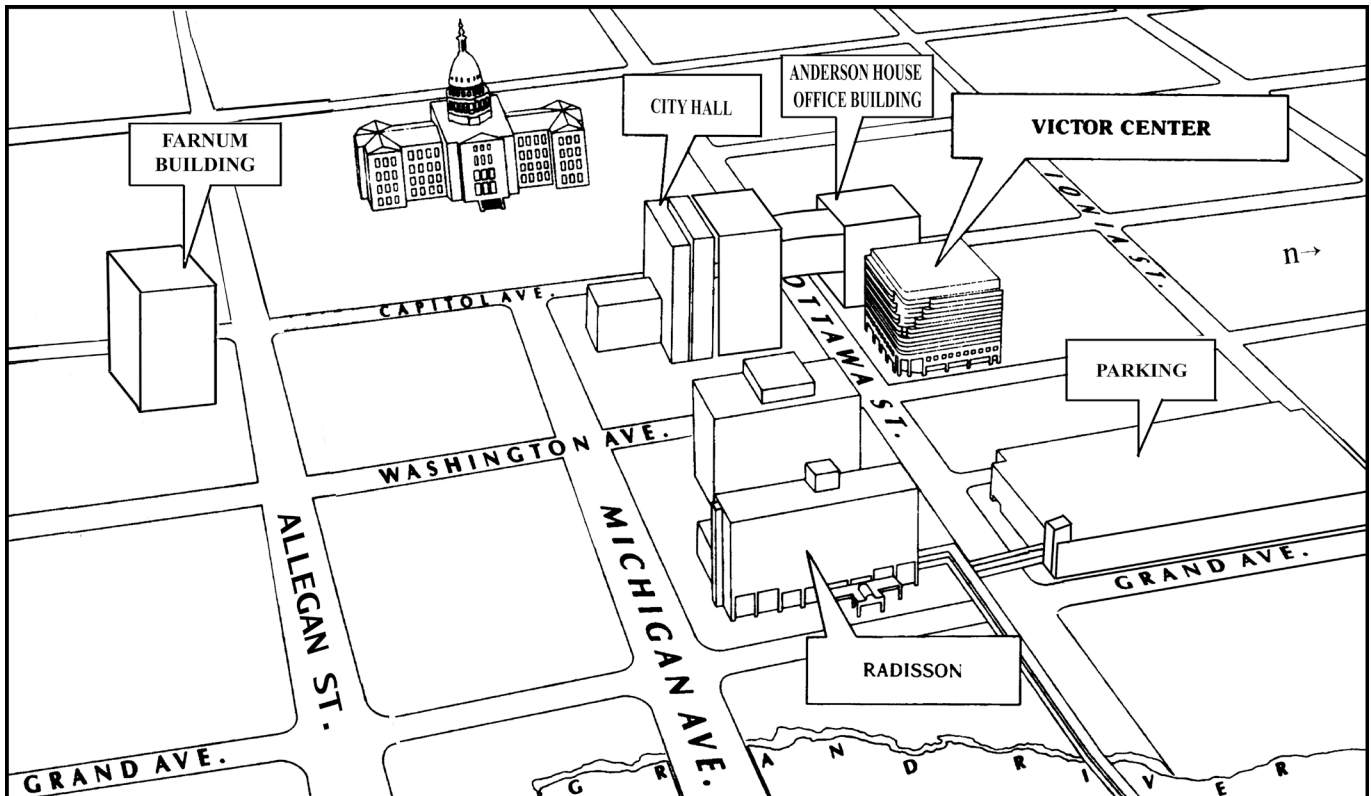
OAG

Office of the Auditor General

Office Location

Office of the Auditor General
Victor Center, Sixth Floor
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OAG

Office of the Auditor General

Office Overview

Mission

The mission of the Office of the Auditor General (OAG) is to improve the accountability for public funds and to improve State government operations for the benefit of Michigan's citizens. 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 service.

Responsibility

The Michigan Constitution established the OAG within the legislative branch of State government and set forth its responsibility to conduct post financial and performance audits of State government operations (Article IV, Section 53). 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

Doug Ringler, the Auditor General, is the principal executive and has ultimate responsibility for OAG policies, practices, and reports. The Auditor General is appointed by the Legislature for an eight-year term.

The Auditor General appointed Laura J. Hirst as Deputy Auditor General. Ms. Hirst is the Auditor General's principal aide in carrying out the OAG's responsibilities and in leading the Bureau of Audit Operations.

The OAG has four primary operational areas:

- 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 Bureau is organized into five audit divisions:

- The *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* financial audit, other mandated financial audits, and Government Operations audits.
- The Statewide Single Audit and assistance with financial audits and Government Operations audits.
- Performance audits of Health, Safety, and Regulatory Activities.
- Performance audits of Service, Assistance, and Education Activities.
- Performance audits of Environmental and Information Technology Activities.

- The **Office of Professional Practice** is responsible for performing quality assurance reviews of audit reports and working papers; editing 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 and analysis; 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.

Employees

The OAG had 136 employees as of September 30, 2014. The OAG's commitment to professionalism and leadership in State governmental auditing is evidenced by the professional certifications achieved by its staff. Including the Auditor General, the office has 63 certified public accountants, 12 certified information systems auditors, 3 certified internal auditors, and 20 employees with master's degrees. Many employees also actively participate as officers, board members, and committee members of national, State, and local accounting and auditing organizations.

Quality Control

Professional Standards

The OAG performs audits 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.

External Quality Control Review

Government Auditing Standards requires a triennial peer review of OAG operations. The peer review is performed by a six-person National State Auditors Association external quality control review team. In the most recent review performed in October 2012, the peer review team provided the OAG with its ninth consecutive unmodified ("clean") opinion on its system of quality control. This is the highest level of opinion. The next peer review of OAG operations will be in 2015.

Independence

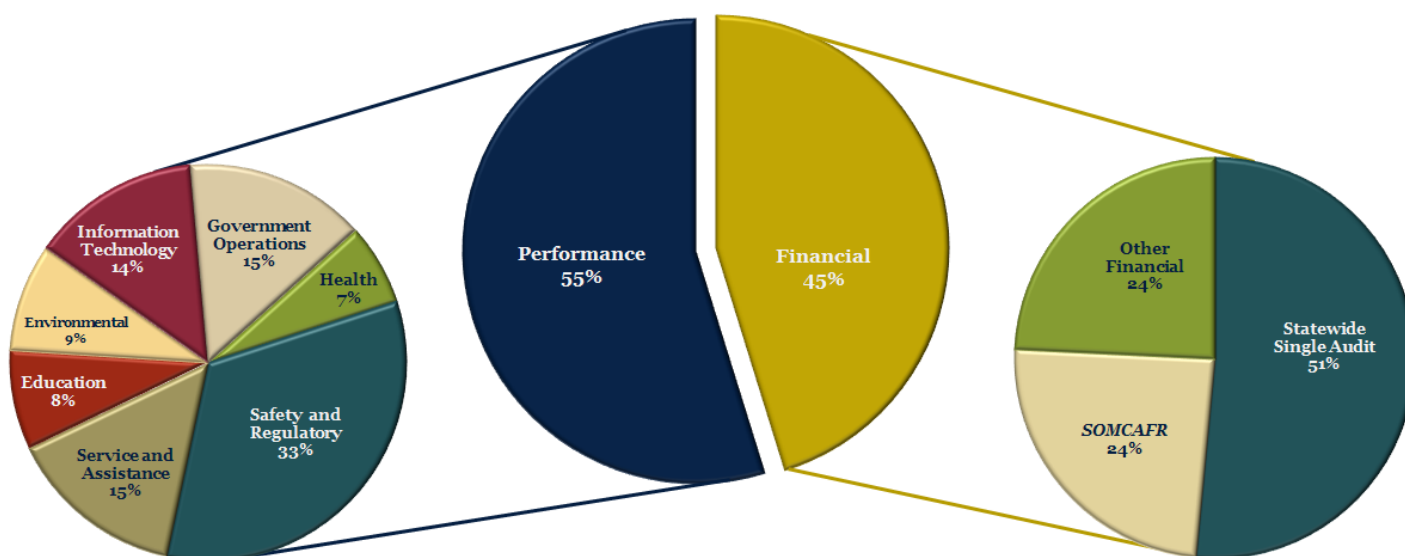
Auditing standards require auditor independence in fact and in appearance. The standards also define impairments to independence. The most recent external peer review of OAG operations noted no impairments affecting the OAG's independence in providing auditing and other attestation services.



Types of Audits and Other Projects

The following chart shows the distribution of direct audit and other project hours by type:

Distribution of Direct Hours



Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements and/or financial schedules of an entity are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

- *State of Michigan Comprehensive Annual Financial Report (SOMCAFR) Audit*

The OAG annually audits the *SOMCAFR* and the Auditor General issues an independent auditor's report on the financial statements and includes this document within the published *SOMCAFR*.

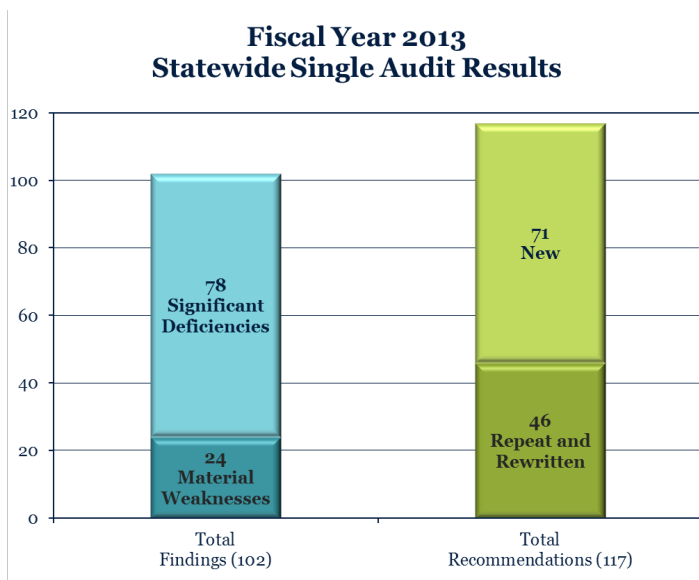
The *SOMCAFR* is an annual report prepared by the Office of Financial Management within the Department of Technology, Management, and Budget.

The *SOMCAFR* includes the State's 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. The State's reporting entity includes the "primary government" and its component units. The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government.

- **Statewide Single Audit**

The OAG annually audits those State programs that reach major federal program status. The State's Single Audit report, including the Auditor General's report on compliance, is required to be submitted to the federal government by June 30 each year for the previous fiscal year ended September 30.

This annual audit is required by the federal Single Audit Act and by State statute. The federal 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.



- **Other Financial Audits**

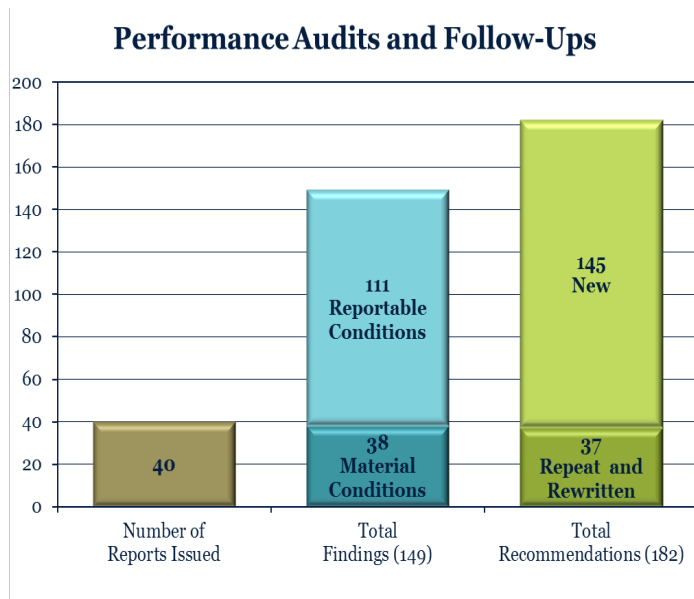
For fiscal year 2014, we conducted 18 other required financial audits. State statute requires annual financial audits of certain entities.

Performance Audits

Performance audits provide findings and/or conclusions based on an evaluation of sufficient, appropriate evidence against criteria applicable to the audited entity. Performance audits also provide objective and independent analyses to program management and those charged with governance and oversight to facilitate decision making and improve public accountability. We conduct performance audits based on the potential for improving the effectiveness and efficiency of State government operations.

Audit Finding Follow-Ups

The OAG may conduct follow-ups of the material conditions contained in a previously-issued performance audit report. Material conditions are considered more severe than reportable conditions. We perform these engagements to assess the entities' compliance with prior audit findings. We may issue new recommendations if corrective action was not effective at fostering improvements.



Preliminary Survey Summaries

A preliminary survey summary is a publicly released document in a report-like format that addresses only the results of a preliminary survey. A preliminary survey, performed at the beginning of a performance audit, is designed to obtain an understanding of the core activities within an entity or a program. These procedures are limited and are not considered a completed performance audit.

If the results of a preliminary survey do not identify significant potential program improvements and/or risks of deficiencies that could impair management's ability to operate a program effectively or efficiently, we terminate the performance audit and move our resources to a more value-driven project.

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 matters or subjects.

Report Distribution, Response, and Value

Report Distribution

We provide electronic access to all of our released reports. They are most often addressed to the chief executive officer of the audited entity and/or to the chair of its governing board or commission. On the day prior to a report's official release, we notify the audited entity, the House and Senate Quadrant Leadership, relevant House and Senate Standing Committee chairs and minority vice chairs, the Executive Office, and the legislator(s) who requested the audit, if applicable.

On the official release date, our office posts the report publicly to the OAG Web site and e-mails a report link to all legislators, House and Senate Fiscal Agencies, other State offices, and all others who have requested a copy of the report, including any media. Our office does not issue news releases, but we do respond to media or public inquiries regarding released reports.

Auditee Response

Audited agencies are required to develop a plan to comply with OAG audit recommendations and to submit the plan to the Office of Internal Audit Services, State Budget Office, within 60 days after release of the OAG audit report. This requirement is found in Section 18.1462 of the *Michigan Compiled Laws* and in the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100).

The Office of Internal Audit Services reviews the plan and either accepts it as final or contacts the agency to take additional steps to finalize the plan. The OAG Web site includes the agency's plan to comply following each OAG audit report.

Audit Value

OAG reports provide objective, unbiased, and independently developed information that legislative members can use in making informed decisions regarding program scope, structure, and funding. Investors and creditors may rely on OAG financial reports to assess the State's financial condition. In addition, our work offers citizens information about the oversight and accountability of taxes, fees, and other revenues paid to the State and whether those dollars are spent in accordance with statutes and guidelines.



Communication Types

Reports

OAG audit reports are the formal, written, and primary means of communicating audit results. In addition to the reports, the OAG provides the following communications to foster positive and productive working relationships with the Legislature, audited agencies, citizens, and other stakeholders.

Monthly Summaries

The Auditor General e-mails a monthly summary to all legislators and the Executive Office. The summary identifies projects that the OAG initiated during the prior month; any audits terminated; audit objectives established for ongoing projects; projects nearing completion, including estimated release dates; and audits released.

Legislative Hearings and Meetings

The OAG welcomes the opportunity to brief committees and meet personally with legislators to provide audit report testimony, discuss specific issues identified within audit reports, respond to requests for our audit services, or to provide information related to government operations to assist in their decision making.

State Relations Officer

The OAG State Relations Officer's primary responsibility is to build effective relationships and to facilitate communications with the Legislature, legislative fiscal agencies, the Executive Office, audited agencies, and the media. These communications include addressing questions about OAG operations

and our reports or facilitating requests for audit work.

On-line Information

Our Web site at [<http://audgen.michigan.gov/>](http://audgen.michigan.gov/) provides extensive information regarding our office, including:

- OAG Operations
- Organizational Chart
- Types of Audits Performed
- Follow-Up on Material Findings
- Professional Standards
- Summary of Audit and Letter Reports
- Recently Released Projects
- Completed Projects
- Work in Process
- Office Location and Contact Information
- Staff Directory and E-Mail Contacts
- Monthly Summaries to the Executive Office and the Legislature
- OAG Annual Reports

Completed Audit and Letter Reports

Department of Agriculture and Rural Development

Contracted Audits

- Farm Produce Insurance Authority - Financial Report for the Fiscal Year Ended December 31, 2013
- Farm Produce Insurance Authority - Financial Report for the Fiscal Year Ended December 31, 2012

Department of Community Health

Performance Audits

- Center for Forensic Psychiatry, 391-0210-13
- Community Health Automated Medicaid Processing System (CHAMPS) Security and Access Controls, 391-0591-13
- Medicaid Home Help Program, 391-0708-13
- Medicaid Practitioner Fee-for-Service Reimbursement, 391-0713-13
- Michigan Women, Infants, and Children Information System (MI-WIC), 391-0592-11F
- Office of Recipient Rights, 391-0120-13
- Selected General and Application Controls of the State's Electronic Birth and Death Records, 391-0595-13

Department of Corrections

Performance Audits

- Parole and Probation Services, 471-0112-13
- Prisoner Education Programs, 471-0310-13

Performance Audits, continued

- Prisoner Intake Process, 471-0225-14
- Pugsley Correctional Facility, 471-0247-13

Department of Education

Performance Audits

- Early On, 313-2000-12
- Pupil Membership Accounting and Reporting Process, 313-0400-13
- Selected Payment and Related Systems, 313-0590-08F

Department of Environmental Quality

Performance Audit

- Clean Michigan Initiative Environmental Protection Programs, 761-0217-14

Department of Human Services

Performance Audits

- Accessible Web-Based Activity and Reporting Environment (AWARE), 641-0591-08F
- Adult Protective Services, 431-2601-13
- Bridges Decision Tables and Benefit Calculations for Selected Public Assistance Programs, 431-4101-12
- Families First of Michigan Program, 431-2784-13
- Michigan State Disbursement Unit, 431-0142-14

Department of Insurance and Financial Services

Performance Audits

- Consumer Finance Activities, 641-0144-07F
- Department of Insurance and Financial Services, 651-0146-13

Legislature

Financial Audit

- Michigan Legislative Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 900-0140-14

Department of Licensing and Regulatory Affairs

Financial Audit

- Liquor Purchase Revolving Fund, Michigan Liquor Control Commission Annual Financial Report 2013 (For Fiscal Year October 1, 2012 - September 30, 2013), 641-0161-14

Performance Audits

- Bureau of Fire Services and State Fire Marshal, 641-0434-13
- Health Facilities Division, 641-0450-14
- Michigan Public Service Commission, 641-0170-13

Contracted Audits

- Unemployment Insurance Agency - Administration Fund - Financial Report for the Fiscal Year Ended September 30, 2013
- Unemployment Insurance Agency - Administration Fund - Single Audit Report for the Fiscal Year Ended September 30, 2013
- Unemployment Insurance Agency - Contingent Fund - Financial Report for the Fiscal Year Ended September 30, 2013

Contracted Audits, continued

- Unemployment Insurance Agency - Obligation Trust Fund - Financial Report for the Fiscal Year Ended September 30, 2013
- Unemployment Insurance Agency - Unemployment Compensation Fund - Financial Report for the Fiscal Year Ended September 30, 2013
- Unemployment Insurance Agency - Unemployment Compensation Fund - Single Audit Report for the Fiscal Year Ended September 30, 2013

Department of Military and Veterans Affairs

Performance Audit

- Michigan Veterans Affairs Agency, 511-0105-13

Department of State Police

Financial Audit

- Michigan Justice Training Fund, 551-0101-14

Department of Technology, Management, and Budget

Financial Audits

- Michigan Judges' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 071-0153-14M
- Michigan Public School Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 071-0152-14M
- Michigan State Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 071-0151-14M
- Michigan State Police Retirement System Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 071-0154-14M
- State of Michigan 401K Plan - Financial Report - September 30, 2013, 071-0156-14M
- State of Michigan 457K Plan - Financial Report - September 30, 2013, 071-0157-14M

Financial Audits, continued

- State of Michigan Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013, 071-0010-14M
- State of Michigan Single Audit Report, 000-0100-14
- Statement of Revenue Subject to Constitutional Limitation - Legal Basis - Fiscal Year Ended September 30, 2013, 071-0030-14
- Statement of the Proportion of Total State Spending From State Sources Paid to Units of Local Government - Legal Basis - Fiscal Year Ended September 30, 2013, 071-0031-14

Performance Audits

- Actuary Data and Contribution Rates of the Michigan Public School Employees' Retirement System, 071-1152-12L
- Computer Equipment Inventory, 071-0515-13
- Enterprise Data Warehouse, 071-0520-14
- High School Graduation and Dropout Rates, 071-0181-05F
- Member Data of the Michigan Public School Employees' Retirement System, 071-1153-12L
- Michigan Business One Stop System, 071-0525-13

Contracted Audit

- State Sponsored Group Insurance Fund - Financial Report for the Fiscal Year Ended September 30, 2013

Department of Transportation

Performance Audit

- Office of Economic Development, 591-0135-13

Contracted Audit

- Mackinac Bridge Authority - Financial Report for the Fiscal Year Ended September 30, 2013

Department of Treasury

Financial Audits

- Emergency 9-1-1 Fund, 271-0265-14
- Michigan Economic Development Corporation - Fiscal Year Ended September 30, 2013, 271-0406-14
- Michigan Education Trust Plan D - Fiscal Years Ended September 30, 2013 and September 30, 2012, 271-0283-14
- Michigan Education Trust Plans B and C - Fiscal Years Ended September 30, 2013 and September 30, 2012, 271-0284-14
- Michigan Finance Authority - Fiscal Year Ended September 30, 2013, 271-0340-14
- Michigan Strategic Fund - Fiscal Year Ended September 30, 2013, 271-0401-14
- Transition in the Office of State Treasurer - As of October 31, 2013, 271-0256-14

Performance Audits

- Brownfield Redevelopment Financing Program, 271-0420-14
- Bureau of Investments, 271-0250-05F
- Homeownership Programs, 271-0205-13
- Individual Income Tax Division, 271-0230-14
- Office of Financial Services, 271-0147-13
- Sales, Use, and Withholding Taxes Process, 271-0201-13
- State Treasury Accounts Receivable System, 271-0590-13

Contracted Audits

- Bureau of State Lottery - Financial Report for the Six-Month Period Ended March 31, 2014
- Bureau of State Lottery - Financial Report for the Six-Month Period Ended March 31, 2013
- Bureau of State Lottery - Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2013
- Michigan Education Savings Program - Financial Report for the Fiscal Year Ended September 30, 2013

Contracted Audits, continued

- Michigan State Housing Development Authority - Financial Report for the Fiscal Year Ended June 30, 2013
- Michigan State Housing Development Authority - Single Audit Report for the Fiscal Year Ended June 30, 2013
- State Building Authority - Financial Report for the Fiscal Year Ended September 30, 2013



National Awards

Professional Development Award

Stephanie Roach received the Professional Development Award at the Association of Government Accountants' May 2014 meeting. Stephanie was nominated by Alvin Bonds, who was asked to present the award to her.

Stephanie was recognized for her extraordinary efforts in providing continuing education opportunities for government professionals and others and for recognizing the importance of a lifetime of learning.



Alvin Bonds and Stephanie Roach

2014 National Legislative Program Evaluation Society (NLPES) Impact Award

The OAG received a 2014 NLPES Certificate of Impact for the Performance Audit of the Renaissance Zone Program, Michigan Economic Development Corporation, issued in January 2013. The audit team consisted of Michael Ventura, Audit Supervisor; Julius Hampton Jr. and Shannah Havens, staff auditors; Steven Baker, Audit Division Administrator; and Mary Jo Koschay, Audit Manager.



The NLPES Impact Award Winners from l to r: Julius Hampton Jr., Shannah Havens, Michael Ventura, Mary Jo Koschay, and Steven Baker.

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