

**Office of the Auditor General**  
Performance Audit Report

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**Substance Abuse Services**  
Department of Corrections

May 2016

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**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*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Substance Abuse Services*

### *Department of Corrections*

**Report Number:**  
471-0360-15

**Released:**  
May 2016

Substance Abuse Services (SAS) is responsible for the Department of Corrections' (DOC's) substance abuse, sexual offender, and drug testing programs. SAS contracted to provide outpatient and residential treatment services to prisoners, parolees, and probationers and community-based program services to parolees and probationers. SAS had eight full-time employees as of August 7, 2015 and expended \$21.5 million in fiscal year 2014.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of SAS's efforts to monitor contractors providing substance abuse and sexual offender treatment services.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
SAS's monitoring efforts need improvement. SAS did not audit 52% of the contractors during the most recent contract cycle, did not obtain 24% of the required corrective action plans or conduct 48% of the follow-up audits, and did not ensure that it received contractors' performance reports ( <a href="#">Finding #1</a> ).	X		Agrees

Audit Objective			Conclusion
Objective #2: To assess the sufficiency of SAS's efforts to evaluate program outcomes.			Sufficient with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DOC did not ensure that the Offender Management System had the functionality to provide legislatively required program outcome data ( <a href="#">Finding #2</a> ).		X	Agrees

A copy of the full report can be  
obtained by calling 517.334.8050  
or by visiting our Web site at:  
[www.audgen.michigan.gov](http://www.audgen.michigan.gov)

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# OAG

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**Doug A. Ringler, CPA, CIA**  
Auditor General

May 3, 2016

Ms. Heidi E. Washington, Director  
Department of Corrections  
Grandview Plaza Building  
Lansing, Michigan

Dear Ms. Washington:

I am pleased to provide this performance audit report on Substance Abuse Services, Department of Corrections.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# EFFECTIVENESS OF EFFORTS TO MONITOR CONTRACTORS

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## BACKGROUND

During the audit period, Substance Abuse Services (SAS) contracted with 51 contractors to provide outpatient and residential substance abuse treatment and 18 contractors to provide community-based sexual offender program services at 175 program sites across the State.

The contracts allow SAS to inspect, monitor, or otherwise evaluate the work performed and require the contractors to report the results of services provided.

SAS's procedures for monitoring contractors included:

- Audits - Formal documented reviews of contract compliance resulting in the issuance of an audit report.
- Corrective action plans - Contractor's written response to the issued audit findings.
- Follow-up audits - Subsequent reviews of issued audit findings' status.
- Preliminary audits - Similar to audits; however, SAS does not document the results, issue an audit report, require a corrective action plan, or conduct a follow-up audit.
- Program activity checks - A comparison of the program activities offered with those required by the contract; however, SAS does not document the results, issue an audit report, require a corrective action plan, or conduct a follow-up audit.
- Communication with the contractor on an ongoing basis.
- Visits to contractors' field locations to review program activities.

## AUDIT OBJECTIVE

To assess the effectiveness of SAS's efforts to monitor contractors providing substance abuse and sexual offender treatment services.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- SAS conducted 34 audits, 7 preliminary audits, 8 program activity checks, and numerous site visits of contractors during the current contract periods.

- SAS monitored daily activity reports of residential providers for space availability and offender programming needs.
- Our on-site visits and case file reviews noted that the contractors were significantly in compliance with contract requirements and that the services were provided by qualified staff.
- Contractor invoices accurately reflected delivered services.
- Material condition\* related to SAS not auditing 52% of the contractors during the most recent contract cycle, not obtaining 24% of the required corrective action plans or conducting 48% of the follow-up audits, and not ensuring that SAS received contractors' performance reports.

*\* See glossary at end of report for definition.*

## FINDING #1

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### SAS needs to improve contract monitoring efforts.

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SAS did not audit 52% of the contractors in the most recent contract cycle or ensure that it received contractors' performance reports.

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SAS's monitoring efforts of the activities and performance of substance abuse and sexual offender contractors need improvement.

Our review disclosed:

- a. SAS had not audited 36 (52%) of the 69 contractors within their most recent contract cycle. Some contracts include language that program audits may be conducted during the contract period. Also, SAS established an informal policy of auditing contractors at least once during a provider's three-year contract cycle. All contracts expired on or before September 30, 2015.

Of these 36 contractors, SAS had completed preliminary audits of 7 community-based residential providers and indicated that it had completed program activity checks of 8 prison-based treatment programs; however, preliminary audits and program activity checks are informal and do not generate audit reports or require corrective action plans.

- b. SAS did not obtain corrective action plans from 8 (24%) of the 33 audited contractors whose audits had identified deficiencies. As of the date of our review, these plans were, on average, 476 days late. Also, 18 (55%) contractors did not submit their plans in a timely manner and were, on average, 156 days late. Contract language requires a corrective action plan to be submitted to SAS within 30 days of the audit report.
- c. SAS did not conduct follow-up audits for 16 (48%) of the 33 audited contractors that noted deficiencies. SAS's informal goal was to conduct these follow-ups within six months of the audit report date.
- d. The Department of Corrections (DOC) did not receive 221 (47%) of the 468 required monthly reports or 148 (99%) of the 150 required quarterly reports from community-based residential substance abuse providers. Contracts require that contractors develop processes to achieve, measure, and report program objectives\* on a quarterly basis and provide a narrative and statistical summary of progress and problems on a monthly basis.
- e. SAS did not obtain annual performance reports from the 32 community-based or prison-based outpatient contractors. Contracts require that annual performance reports, including offender admission, discharge, and outcome\* data, be available upon request. We visited 3

\* See glossary at end of report for definition.

of the 32 contractors and requested their most recent annual reports:

- One contractor reported its program success rate at 49%. Contract language requires a 65% success rate.
- One contractor could not provide us with its performance report.

SAS had only 3 full-time employees to monitor the 69 contracts. Additional employee positions were authorized during fiscal year 2014; however, these positions were never filled. DOC lapsed over \$850,000 of SAS's appropriation for fiscal year 2014 that potentially could have been used to fill the additional positions and provide the necessary oversight.

We noted a similar condition related to contract monitoring in our prior audit. DOC agreed with the recommendation and indicated that it had taken steps to comply.

## **RECOMMENDATIONS**

We recommend that SAS improve its monitoring efforts of its substance abuse and sexual offender contractors.

We also recommend that DOC analyze SAS staffing levels to ensure effective monitoring of the substance abuse and sexual offender contractors.

## **AGENCY PRELIMINARY RESPONSE**

DOC provided us with the following response:

*DOC agrees with the recommendations and has taken steps to comply.*

*DOC's newly established Contract Monitoring Unit will strengthen the monitoring of these contracts using a more centralized risk-based approach. A Contract Manager, who functions as the contract compliance inspector for all substance abuse and sex offender contracts, will work with the existing SAS staff to conduct all contract monitoring activities. DOC also hired two additional staff to monitor substance abuse and sex offender contracts and will continue to evaluate staffing needs. This new unit has already begun to meet with contractors, establish contract monitoring plans for each of the substance abuse contracts, and finalize new monitoring tools.*

*DOC has also developed a corrective action template that program staff will begin using. The template requires program staff to note the date when information is expected from the contractor to assist in ensuring that program staff monitor the process accordingly.*

*DOC would like to note that the information contained in the monthly and quarterly reports is also provided in the billing details that the contractors submit. In the new Request for Proposal that is under development for substance abuse and sex offender contracts, DOC will restructure reports into quarterly meetings with the contractors and DOC staff will be required to document meeting minutes noting the relevant items that were discussed. The new Contract Monitoring Unit will assist in tracking the quarterly meetings to verify they occurred, and will ensure that the minutes contain the appropriate information needed for contract compliance. Additionally, DOC has added a set of performance measures and new service level agreements to the new RFP.*

## SUFFICIENCY OF EFFORTS TO EVALUATE PROGRAM OUTCOMES

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### BACKGROUND

DOC's annual appropriations acts for fiscal years 2014 and 2015 defined offender success as follows:

"... an offender has, with the support of the community, intervention of the field agent, and benefit of any participation in programs and treatment, made an adjustment while at liberty in the community such that he or she has not been sentenced to or returned to prison for the conviction of a new crime or the revocation of probation or parole."

Also, SAS's substance abuse and sexual offender contracts identify the following performance measures\* and standards\*:

- **Prison-Based Outpatient Substance Abuse Treatment:** Program objectives include maintaining an 85% program completion rate and a 95% rate of offender commitment to treatment. Successful completion requires that offenders attend 75% of the program sessions and meet other individualized agreed upon objectives.
- **Community-Based Outpatient Substance Abuse Treatment:** Program objectives include maintaining a 65% program completion rate and a 75% offender participation rate (rate of offenders who are participating in community-based self-help or support groups on a regular basis by day 30 of treatment).
- **Community-Based Residential Services:** Program objectives include a 70% program completion rate and a 75% offender participation rate. In addition, the contractor is attempting to maintain a 90% rate of offenders who have no positive drug test results after day 15 of treatment.
- **Community-Based Sexual Offender Counseling Services:** Program objectives include maintaining a 75% offender completion rate. Successful completion requires that offenders attend 75% of the assigned program sessions.

Prior to August 2014, SAS utilized data obtained from DOC's Corrections Management Information System (CMIS) for reporting on program completions (Exhibit #1) and recidivism\*. However, using DOC's current Offender Management System (OMS), SAS is unable to obtain reliable performance data.

\* See glossary at end of report for definition.

<b>AUDIT OBJECTIVE</b>	To assess the sufficiency of SAS's efforts to evaluate program outcomes.
<b>CONCLUSION</b>	Sufficient with exceptions.
<b>FACTORS IMPACTING CONCLUSION</b>	<ul style="list-style-type: none"><li>• SAS reported program completion and recidivism statistics prior to fiscal year 2014.</li><li>• SAS included performance measures and standards within most of its contracts.</li><li>• Reportable condition* related to SAS's inability to accumulate performance measurement information necessary for analyzing and reporting on program results for fiscal year 2014.</li></ul>

\* See glossary at end of report for definition.



## **FINDING #2**

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**Enhancements are needed to OMS to allow for analysis and reporting of program outcome data.**

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**OMS has not functioned as expected; data reliability in question.**

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DOC did not ensure that OMS had the functionality to provide legislatively required program outcome data for fiscal year 2014.

Cumulatively, Sections 405, 408, and 612(4) of DOC's annual appropriations acts for fiscal years 2013 and 2014 require DOC to report program objectives, measures, and outcomes of the substance abuse program, including offender success, program success, recidivism, and waiting lists. Also, performance measurement is an essential tool for managing the quality and costs of State services. Data should be collected and analyzed at regular intervals to assess performance; measure progress toward achieving program goals\* and objectives; and consider actions, such as policy or operational changes.

For fiscal year 2014, SAS did not accumulate performance measurement information necessary to analyze and report on the substance abuse program's performance. Also, SAS had not gathered waiting list data for outpatient substance abuse treatment services for fiscal years 2013 or 2014. SAS had reported required performance measurement data (Exhibit #1) and recidivism data prior to implementing OMS, and turning off CMIS, in August 2014. However, because OMS has not functioned as expected, SAS indicated that it was not confident in the completeness or accuracy of information generated by OMS.

DOC was aware of the problems with OMS; however, DOC classified other OMS weaknesses as a higher priority. Therefore, upgrades that would allow SAS to generate performance measurement information have not been addressed.

We noted a similar condition related to assessing program outcomes in our prior audit. DOC agreed with the need to conduct a more comprehensive assessment of its substance abuse programs and indicated that it had taken steps to initiate compliance.

## **RECOMMENDATION**

We recommend that DOC take steps to correct OMS weaknesses to allow SAS to accumulate and analyze performance measurement information and provide legislatively required reports.

## **AGENCY PRELIMINARY RESPONSE**

DOC provided us with the following response:

*DOC agrees with the recommendation and has taken steps to comply.*

\* See glossary at end of report for definition.

*Since completion of the audit, DOC corrected OMS or established other processes to collect and analyze performance measurement information. The legislative report that was due April 2015 has been completed and is available on the DOC website.*

# SUPPLEMENTAL INFORMATION

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UNAUDITED  
Exhibit #1

SUBSTANCE ABUSE SERVICES  
Department of Corrections

Program Completion Rates by Type of Program  
Fiscal Years 2011 Through 2014

	Offenders Completing Program During Fiscal Year						2014*
	2011		2012		2013		
	Number	Percentage	Number	Percentage	Number	Percentage	
Prison-Based - Outpatient	4,303	84.1%	3,876	96.2%	3,660	96.4%	
Prison-Based - Residential	379	75.8%	334	75.7%	373	83.6%	
Community-Based - Outpatient	3,159	54.9%	3,033	64.6%	3,568	62.9%	
Community-Based - Residential	2,172	74.8%	2,206	76.9%	2,536	80.5%	

\* Data was not available due to information system limitations or issues.

Source: Prepared by the Office of the Auditor General based on information obtained from the Department of Corrections' Section 405 reports.

SUBSTANCE ABUSE SERVICES  
Department of Corrections

Offenders Admitted to Programs  
Fiscal Years 2011 Through 2014

	Fiscal Year			
	2011	2012	2013	2014*
Prison-Based - Education	4,117	3,747	5,847	
Prison-Based - Outpatient	4,823	5,466	8,888	
Prison-Based - Residential	514	706	825	
Community-Based - Outpatient Parolees	6,083	7,159	14,173	
Community-Based - Outpatient Probationers	1,476	1,121	*	
Community-Based - Residential Parolees	3,111	3,592	6,275	
Community-Based - Residential Probationers	23	21	*	
Total	<u>20,147</u>	<u>21,812</u>	<u>36,008</u>	

\* Data was not available due to information system limitations or issues.

Source: Prepared by the Office of the Auditor General based on information obtained from the Department of Corrections' Section 405 reports.

SUBSTANCE ABUSE SERVICES  
Department of Corrections

Offenders Served by Type of Program and Cost Per Offender  
Fiscal Years 2011 Through 2014

	<u>Number of Offenders Served During Fiscal Year</u>				<u>Total Fiscal Years 2011 Through 2013</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
Assessment Only	1,089	1,702	1,628	*	4,419
Educational	3,524	3,152	2,937	*	9,613
Outpatient	10,326	13,868	14,398	*	38,592
Residential	3,098	3,960	3,619	*	10,677
Total	<u>18,037</u>	<u>22,682</u>	<u>22,582</u>		<u>63,301</u>
Expenditures	<u>\$ 24,177,138</u>	<u>\$ 21,488,538</u>	<u>\$ 23,893,094</u>	<u>\$ 21,472,378</u>	<u>\$ 69,558,770</u>
Average cost per offender	<u>\$ 1,340</u>	<u>\$ 947</u>	<u>\$ 1,058</u>	*	<u>\$ 1,099</u>

\* Data was not available due to information system limitations or issues.

Source: Prepared by the Office of the Auditor General based on information obtained from the Department of Corrections' Section 405 reports.

## AGENCY DESCRIPTION

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SAS is responsible for providing substance abuse and sexual offender treatment programs to prisoners\*, parolees\*, and probationers\* and for providing drug testing services. For fiscal years 2011, 2012, and 2013, SAS admitted 20,147, 21,812, and 36,008 offenders, respectively, into the various programs (Exhibit #2) and provided 18,037, 22,682, and 22,582 offenders, respectively, substance abuse programming and sexual offender counseling services (Exhibit #3).

### Substance Abuse Treatment Services

Each newly committed prisoner is screened and assessed regarding his or her need for substance abuse treatment services. If a substance abuse problem is identified, the prisoner is referred to a treatment program within the correctional facility. SAS is responsible for ensuring that a continuum of treatment options is available for the duration of the prisoner's sentence, including educational curriculum and outpatient and residential services.

SAS provides substance abuse treatment to parolees and probationers through a network of treatment programs across the State, including transitional housing, outpatient services, and residential services.

Outpatient services provide intervention of the substance abuse and criminal justice problems of offenders through weekly group therapy sessions.

Residential services treat offenders who are unable to manage their abusive behavior in outpatient programming. This programming addresses major lifestyle, attitude, and behavioral issues through evidence-based treatment methods and maintaining a constant therapeutic environment comprised of lectures, individual counseling, various group therapies, work therapy, organized recreation, community projects participation, and self-help groups.

### Sexual Offender Treatment Services

Sexual offender treatment services target offenders who have a history of criminal sexual conduct. These programs deliver intensive services that address thinking errors and deviant behavior and are focused on reducing sexual offending behavior.

As of August 7, 2015, SAS had eight full-time employees. For fiscal year 2014, SAS expended \$21.5 million, including \$18.8 million for contract expenditures. The average cost to provide services to offenders for fiscal years 2011 through 2013 was \$1,099 per offender served (Exhibit #3).

\* See glossary at end of report for definition.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine program and other records related to SAS's activities. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through July 31, 2015.

### METHODOLOGY

We conducted a preliminary survey to obtain an understanding of the services provided by SAS in order to establish our audit objectives and methodology. As part of our preliminary survey, we:

- Interviewed SAS management and program staff to gain an understanding of how prisoners, parolees, and probationers were approved for and received substance abuse and sexual offender services.
- Reviewed applicable laws, regulations, appropriations, policies, and procedures to identify compliance requirements and performance measures and standards.

### OBJECTIVE #1

To assess the effectiveness of SAS's efforts to monitor contractors providing substance abuse and sexual offender treatment services.

To accomplish our first objective, we:

- Interviewed SAS staff responsible for monitoring substance abuse contracts.
- Reviewed SAS expenditures by type of service provided and contractor for fiscal year 2013 through June 2015.
- Obtained an understanding of the software systems used by SAS to manage offender files.
- Reviewed contracts to obtain contract requirements.

\* See glossary at end of report for definition.

- Tested qualifications of the applicable staff of 8 contractors to ensure that they were properly licensed or certified to provide substance abuse treatment services. Contractors were judgmentally selected based on the type of service provided and the physical location of the facility for audit efficiency.
- Reviewed 4 contractor audits completed by SAS for compliance with the contract language. Contractors were judgmentally selected based on the degree of risk associated with the contractors.
- Reviewed 80 case files at 7 substance abuse and 1 sexual offender contractor locations to determine if the providers complied with contract requirements and accurately billed SAS for services rendered. Contractors were judgmentally selected based on the type of service provided and the physical location of the facility for audit efficiency. The case files were randomly selected to eliminate bias. We could not project the errors into the entire population.
- Reviewed the timeliness of reports submitted by 18 community-based residential substance abuse and 1 community-based residential sexual offender program contractors for the period for October 2013 through April 2015. Contractors were judgmentally selected based on the existence of contract reporting requirements.

## **OBJECTIVE #2**

To assess the sufficiency of SAS's efforts to evaluate program outcomes.

To accomplish our second objective, we:

- Interviewed SAS staff responsible for generating reports from OMS and CMIS data.
- Reviewed contracts to determine the frequency and content of required performance reports.
- Reviewed OMS data related to program completion rates and recidivism.
- Reviewed contractor performance reports during our site visits at 3 community-based outpatient providers.
- Reviewed SAS's legislative reports of performance measurement data.
- Calculated offender completion rates for the various substance abuse and sexual offender programs.



- Attempted to calculate program recidivism rates for offenders paroled in fiscal year 2012; however, DOC could not provide reliable data because of system problems.

## **CONCLUSIONS**

We base our conclusions on our audit efforts and the resulting material conditions and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our report contains 2 findings and 3 corresponding recommendations. DOC's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the 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.

## **PRIOR AUDIT FOLLOW-UP**

We released our prior performance audit of Substance Abuse Services, Department of Corrections (471-0360-08), in September 2009. We rewrote the 2 prior audit recommendations for inclusion in Findings #1 and #2 of this audit report.

## **SUPPLEMENTAL INFORMATION**

As part of our audit, we prepared supplemental information that relates to our audit objectives. Our audit was not directed toward expressing a conclusion on this information.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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CMIS	Corrections Management Information System.
DOC	Department of Corrections.
goal	An intended outcome of a program or an entity to accomplish its mission.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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.
objective	Specific outcome(s) that a program or an entity seeks to achieve its goals.
OMS	Offender Management System.
outcome	An actual impact of a program or an entity.
parolee	A felon who is incarcerated for at least the minimum portion of his/her sentence and is placed on parole by vote of the Parole Board. With some exceptions, a typical offender is supervised on parole for a period of two years. While on parole, the offender is monitored by a parole agent employed by DOC.
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 measure	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 standard	A desired level of output or outcome.
prisoner	A person serving a term of incarceration under the jurisdiction of DOC.
probationer	A person placed on probation pursuant to Chapter XI of the Code of Criminal Procedure, Public Act 175 of 1927, as amended, being Section 771.3b of the <i>Michigan Compiled Laws</i> .
recidivism	The return of a parolee (or probationer) to State custody.
reportable condition	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.
SAS	Substance Abuse Services.









