2006

2006 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

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
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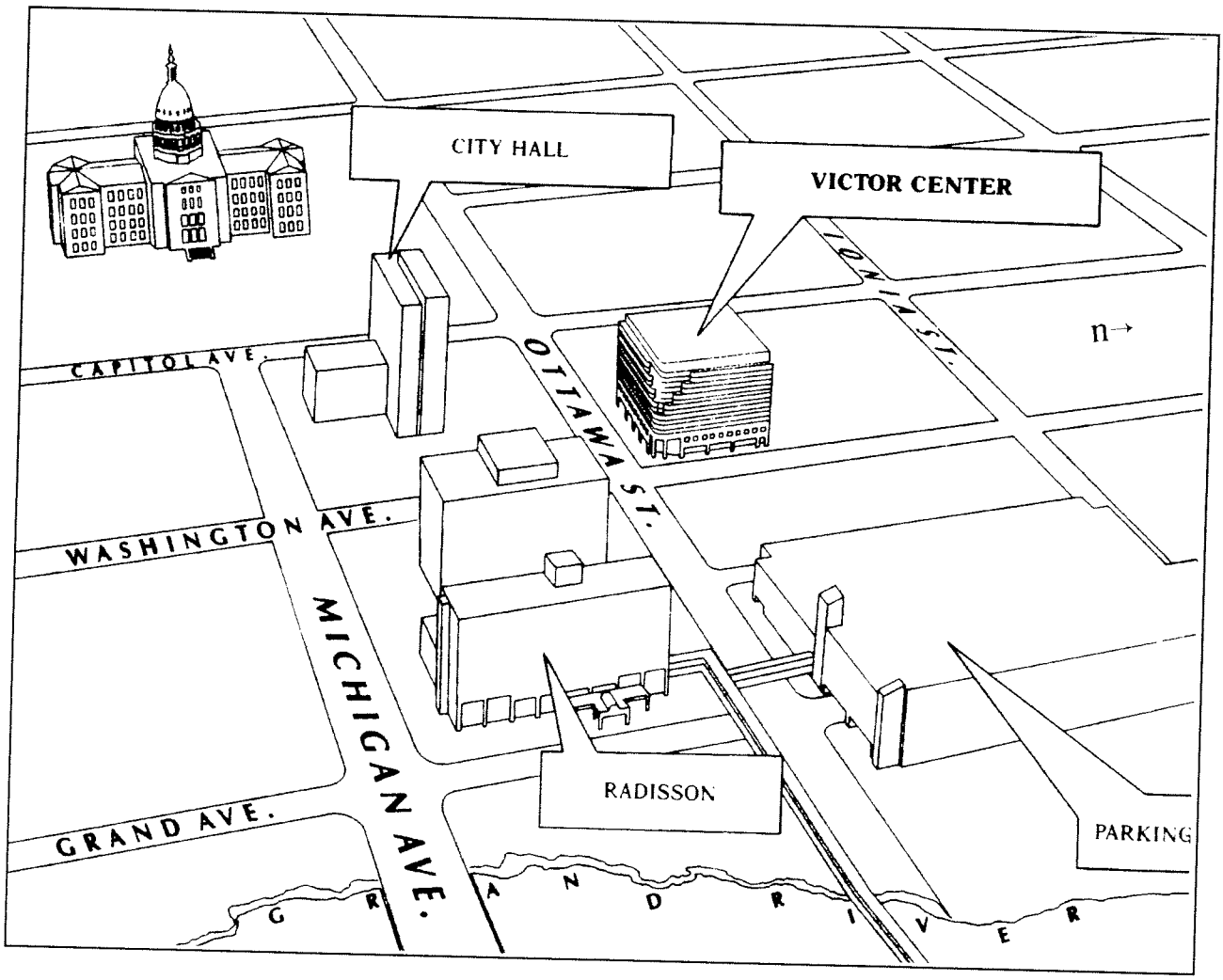
Where We Are Located



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

September 30, 2006

The Honorable Jennifer M. Granholm, Governor of Michigan
The Honorable Kenneth R. Sikkema, Senate Majority Leader
The Honorable Craig M. DeRoche, Speaker of the House
The Honorable Robert L. Emerson, Senate Minority Leader
The Honorable Dianne Y. Byrum, House Minority Leader
and
Members of the 93rd Legislature

Ladies and Gentlemen:

This annual report on the operations of the Michigan Office of the Auditor General covers the fiscal year ended September 30, 2006 and is submitted in accordance with Article IV, Section 53 of the State Constitution.

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

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

Additionally, 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,

Thomas H. McTavish

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

National State Auditors Association

September 30, 2006

Mr. Thomas H. McTavish, CPA
Office of the Auditor General
204 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, 2005 through September 30, 2006. 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. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, 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, 2005 through September 30, 2006 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Pamela J. Robinson, Team Leader
National State Auditors Association
External Peer Review Team

Richard H. Foote, Concurring Reviewer
National State Auditors Association
External Peer Review Team

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Report Summary

The Office of the Auditor General, established by the State 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

During fiscal year 2005-06, the Office of the Auditor General completed 59 audits and contracted for 22 additional audits. Our audit reports contained 240 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 year 2005-06, our audits identified savings to the State in excess of $17 million.

Significant Findings

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

SOMCAFR Audit

Approximately 11% of our direct audit hours were used for our audit of the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*) for the fiscal year ended September 30, 2005. This audit, which was conducted simultaneously with the Statewide year-end closing process, resulted in 17 recommended audit adjustments of

$195.9 million. The most significant adjustments included:

- The Office of Financial Management (OFM), Department of Management and Budget, did not properly adjust the accrual for tax collections. This error resulted in the incorrect classification of tax receivables by $22.64 million in the government-wide statements and the general fund.

- OFM did not properly account for tax collections. This resulted in the overstatement of accounts receivable and revenue by $12 million in the government-wide statements.

- The Department of Human Services improperly included Claims for Medical in the total claims calculation for the Inpatient Hospital Operating accrual. This resulted in an overstatement of total accounts payable and expenditures of $25.6 million and an overstatement of outstanding accounts payable and expenditures of $1.5 million in the general fund.

- OFM did not properly and consistently capitalize all construction-in-progress (CIP) expenses for capital outlay projects. OFM also did not capitalize federally financed expenses incurred for non-Michigan Department of Transportation (MDOT) construction projects still in process at year end. These errors resulted in an overstatement of expenses and an understatement of assets of $31.6 million in the government-wide statements.

- MDOT improperly included ramp type codes in the calculation of the historical cost for road reconstruction and the historical cost for ramps. This error resulted in an understatement of capital assets of $48 million in the government-wide statements.

Single Audits

The Single Audit Act requires state and local governments receiving $300,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit, 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 29% of our direct audit hours were used for Single Audits in fiscal year 2005-06.

In fiscal year 2004-05, we completed 12 Single Audits and reported total net questioned costs of $1.4 million. In fiscal year 2005-06, we completed 7 Single Audits and reported total net questioned costs of $36.2 million. Significant findings are summarized by department starting on page 21 of this report.

Performance Audits

Performance audits are conducted on a priority basis related to the potential for improving State government operations. Approximately 56% of our direct audit hours were used for performance audits in fiscal year 2005-06. The following are highlights of findings that, if corrected, would improve the effectiveness and efficiency of State government operations:

- In our audit of Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration, Department of Community Health, we identified 4 audit findings, 2 of which were classified as material conditions. The material conditions disclosed $55.1 million in either known or questionable Medicaid overpayments.

- In our audit of the Center for Forensic Psychiatry (CFP) and Related Bureau-wide Reimbursement Activities, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health (DCH), we identified potential savings and revenues in excess of $14.5 million. We determined that DCH's Centers for Medicare and Medicaid-certified facilities did not seek reimbursement from Medicare for bad debt resulting from the unpaid deductibles and coinsurances of Medicare enrolled patients.

- In our audit of Selected Medicaid Fee-for-Service Payments, Medical Services Administration, Department of Community Health (DCH), we determined that DCH did not have controls to prevent, or procedures to immediately recover, fee-for-service overpayments made to physicians and inpatient hospitals for Medicaid beneficiaries who were retroactively enrolled into a managed care health plan. As a result, we estimated that DCH overpaid between $6.3 million and $8.5 million for Medicaid services provided during the period from July 1, 2001 through June 30, 2004.

- In our audit of the Accuracy of Prisoner Release Dates, Department of Corrections and Department of Information Technology, we determined that the Department of Corrections did not ensure that the Corrections Management Information System (CMIS) was programmed to correctly and completely compute prisoner release dates for all types of sentences. As a result, CMIS inaccurately computed some prisoner release dates resulting in the early release of these prisoners.

- In our audit of Children's Foster Care Program, Department of Human Services (DHS), we noted that DHS and the contracted service providers generally did not comply with material provisions of State laws and regulations related to the delivery of Program services. DHS did not ensure that its local office workers conducted and documented criminal history background checks and assessed the related risks prior to placing children in the homes of potentially unsuitable relative foster care providers. Also, DHS was generally not effective and efficient in monitoring the delivery of services by Program contracted service providers. DHS did not sufficiently monitor contracted agencies to ensure that contracted agencies effectively delivered foster care services.

- In our audit of Statewide Information Technology Contracting Practices, Department of Management and Budget (DMB) and Department of Information Technology (DIT), we determined that DMB and DIT had not established an effective control environment for managing information technology (IT) contracts. DMB's practices for competitively awarding IT contracts were not effective. Also, DMB had not always awarded sole source contracts in accordance with sole source eligibility criteria.

- In our audit of High School Graduation and Dropout Rates, Center for Educational Performance and Information (CEPI), Department of Management and Budget, we noted that CEPI did not have the authority to review high schools' records and the authority to withhold State aid payments for inaccurate reporting or for failure to report graduation and dropout data. Also, CEPI had not developed sufficient reasonableness checks and verification techniques to help identify inaccuracies in high school graduation and dropout data prior to using the data to calculate graduation and dropout rates. As a result, CEPI did not detect inaccuracies in the

data submitted by high schools. Further, CEPI had not developed procedures to correct errors in the Single Record Student Database data submitted by high schools. As a result, CEPI reported inaccurate data to the National Center for Educational Statistics.

Human Resources

During fiscal year 2005-06, the Office of the Auditor General continued its commitment to professionalism and leadership in the field of State governmental auditing. Our 125-member professional audit staff included 65 certified public accountants, 4 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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Auditors General of Michigan

HISTORICAL LISTING

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

Mission

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

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

Responsibility

The 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 handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide a continuing flow of information to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately $43 billion. OAG audit reports also provide citizens with a measure of accountability and assist department administrators by providing an independent and objective evaluation of their operations. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness and efficiency in State government.

...to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately $43 billion.

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

Organization and Operation of the OAG

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

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:

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

- 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 managing the OAG local area network, maintaining

the management information system, and providing computer support and software assistance 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 7.

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. Additionally, the OAG 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*.

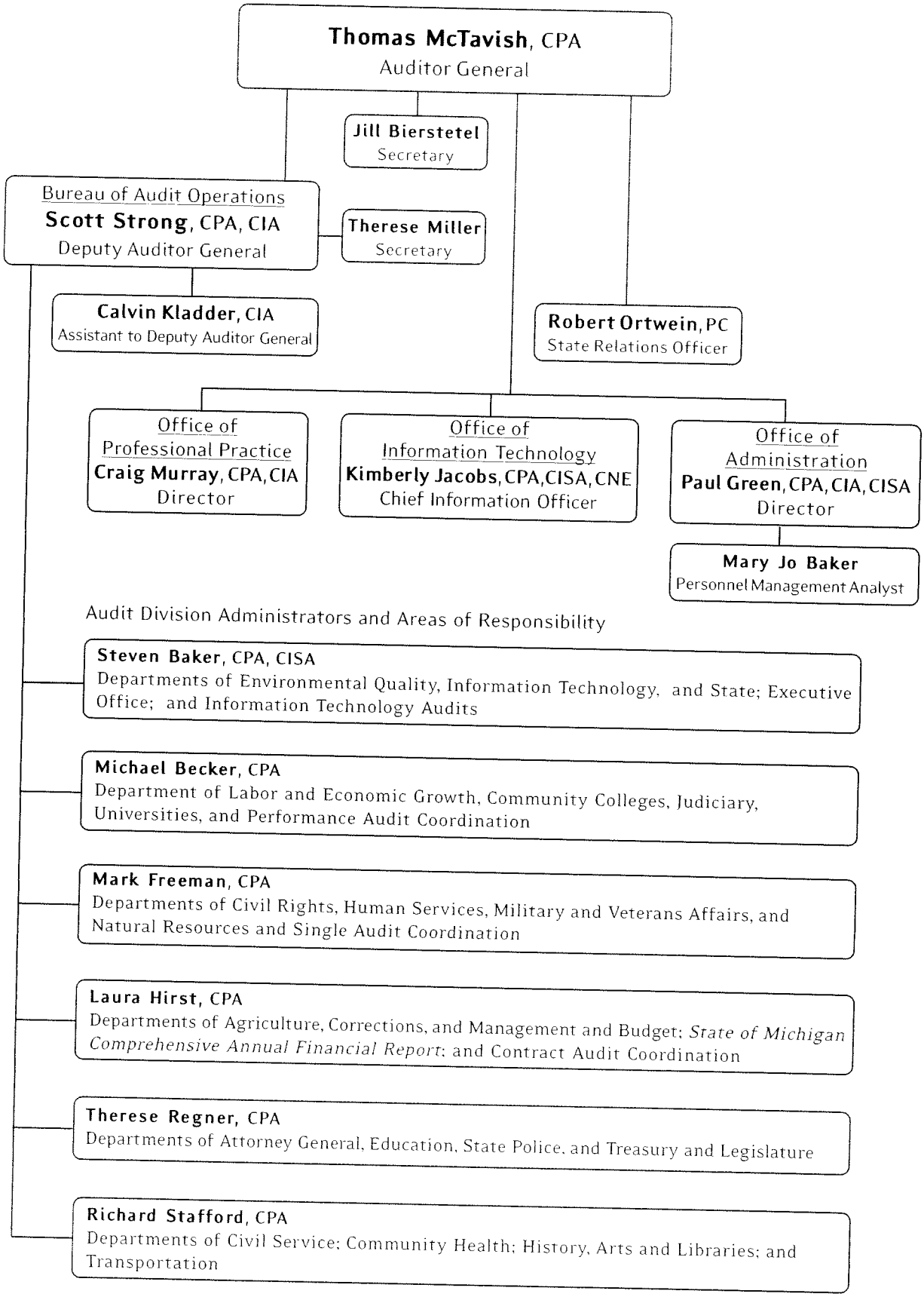
Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal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

Organizational Structure



Office of the Auditor General Employees

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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

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

AUDIT OPERATIONS

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

Assistant to Deputy Auditor General

Calvin L. Kladder, C.I.A.

Audit Division Administrators

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

Michael R. Becker, C.P.A.

Mark A. Freeman, C.P.A.

Laura J. Hirst, C.P.A.

Therese A. Regner, C.P.A.

Richard A. Stafford, C.P.A.

Audit Managers

Thomas J. Beuerle, C.P.A.	Assists Mr. Stafford
Melinda S. Hamilton	Assists Mr. Freeman
Mary Jo Koschay, C.P.A.	Assists Ms. Hirst
Elden N. Lamb	Assists Mr. Becker
Melissa A. Schuiling, C.P.A., C.I.S.A.	Assists Mr. Baker
Gerald A. Schwandt	Assists Ms. Regner

Principal Audit Supervisors

Donna L. Ackley, C.P.A.
John T. Cotter, Jr., C.P.A.
Susan M. Curtis, C.P.A.
Shelly M. Fanson, C.P.A., C.I.S.A.
Lynn R. Green, C.P.A.
Elmer R. Hess, Jr.
Scot E. Hazel
Beau A. Hill, C.P.A.
Steven R. Koschay, C.P.A.
Lisa L. Pratt, C.P.A.
Kathy J. Schroeder, C.P.A., C.I.S.A.
Kevin L. Warner, C.P.A., C.I.S.A.
Amy J. Zimmerman, C.P.A.

Senior Audit Supervisors

Richard T. Aapala
Anthony A. Alvord, C.P.A.
Cheryl A. Baker, C.P.A.
Yvonne L. Benn, C.P.A.
Heather A. Boyd, C.P.A.
Gary A. Curtis
Daphne Y. Hobson, C.P.A.
Brian C. Hovey, C.P.A.
Tracy L. Jelneck, C.P.A.
Mary L. Lowe, C.P.A.
Lora J. Mikula, C.P.A.
Frank A. Natschke, C.P.A.
Susan H. Rosenbaum
Duane L. Smiley, C.P.A.
Jeffrey L. Zemke

Audit Supervisors

Kevin C. Baker, C.P.A.
Karen J. Bosworth, C.P.A.
Michele M. Elms, C.P.A.
Michael T. Gardner, C.P.A.
Daniel T. Jaroche, C.P.A.
Brian K. Kent, C.P.A.
Charles R. Kern, II, C.I.S.A.
Justin C. Londo
Lori S. Mullins, C.I.S.A.
Silhouette T. Street, C.P.A.
Michael J. Ventura, C.P.A.
Mary Kay Walker

Senior Auditors

Kevin D. Bashore
James A. Berridge
Kelly L. Blessing
Ivy M. Britting
Brian T. Buckner
Aaron S. David
Michael J. Foerster
Hilary J. Goerge
Julius Hampton, Jr.
Shawna M. Hessling
Pamela M. Huffman, C.P.A.
Paul J. Jacokes, C.P.A.
Corrie A. Jameson
Renee L. Johnson-Maybee
Scott A. Kusnier
Mark A. Lee
Susan D. Morway
Thomas D. Ongstad
Eileen M. Schneider, C.P.A.
Gregory J. Schroll, C.P.A.
Nancy Jo Serna, C.P.A.
Julie L. Trierweiler, C.P.A.
Rod A. Wlock

Staff Auditors

Dawn M. Anderson
Ryan C. Austin
Lori M. Beltran, C.P.A.
Kelly M. Bernath
Angela M. Brown-Schafer
Christina J. Carlson
Cameron S. Cassidy, C.P.A.
Patricia A. Chooi, C.P.A.
Diane L. DeLuca, C.P.A.
Adam D. Feldpausch
Jill E. Gard
Robin E. Garity
Lisa S. Harral, C.P.A.
Connie M. Jones, C.P.A.
Lisa R. Kreiter
Tomas C. Kuslikis
Dennis M. McMillan, C.P.A.
Christopher C. Oosterhoff
Allison M. Pierce
Ryan L. Riley
Sara A. Schondelmayer
Francis W. Thelen
Audra C. Turner, C.P.A.
Laura M. Ventura
Marie L. Wells
Jason M. Werner
Scott R. Werner
Pamela J. Wininger
Leah M. Yarsevich

PROFESSIONAL PRACTICE

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

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

Research and Professional Standards
Ronald A. Yarsevich, C.P.A.

Quality Assurance
Alvin D. Bonds
Sid V. Lundquist
Mary A. Waterhouse, C.P.A.

INFORMATION TECHNOLOGY

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

Jeffrey J. Mikula, C.N.A., Assistant Chief Information Officer

Local Area Network and Computer Support Section
Gabriele E. Brazee
Joshua N. Galloway
Thomas D. Mason, C.N.A.
Jason M. Michels, C.N.A.
David L. Newkirk, C.N.A.

Software Assistance Section
Andrew A. Mitchell, Supervisor
Erica L. Morris, C.P.A., C.I.S.A., Supervisor
David E. Batz, C.P.A., C.I.S.A.
Elizabeth A. Torres

ADMINISTRATION

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

Human Resources
Jackie S. Lawson, C.P.A.
Assistant Director
Stephanie S. Roach
Professional Development Coordinator
Mary Jo Baker, Personnel Management and Administrative Analyst

Accounting and Budgeting
Michael E. Mrazek, Accounting and Budgeting Specialist

Project and Security Management
Dennis J. Strzalkowski

Office Services
Suzanne M. Kinney, Supervisor
Kelly R. Ancel
Rick L. Ettinger

Clerical Support
Amanda A. Feldpausch
Donna J. Glowacki
Jenna L. Miller
Jarita E. Qawwee
Megan M. Quinn
Nicole L. Trierweiler
Adrianne M. Weber

Payroll/MIS Input Unit
Theresa M. Fedewa

Types of Audits and Services Performed by the OAG

Various types of audits complement each other.

Financial Audits

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

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

Professional standards are strictly adhered to.

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.

Independence standards are followed.

Value of OAG Reports

To the Legislature

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The OAG also responds directly to requests from 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

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

needed by the Legislature to make decisions regarding the continuation of programs and levels of funding. These recommendations have historically resulted in annual financial savings of tens of millions of dollars.

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

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.

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

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 and How Audit Reports Are Issued

Audit reports issued by the OAG are typically addressed to the audited entity's chief executive officer and/or 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, copies of the audit report 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)

The audit report release process ensures broad distribution.

On the official release date, copies of the audit report are also sent to the following:

- All legislators
- House and Senate Fiscal Agencies
- Office of Financial Management, Department of Management and Budget (DMB)
- 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.

OAG Contact With the Legislature

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

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

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

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

Reaction and Response to an Audit Report

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

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

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

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

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

When the OAG performs an audit of a university or community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the 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 Department of Labor and Economic Growth. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

OAG Follow-Up on Material Findings

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

Material findings and recommendations are routinely followed up approximately six months after the release of the audit report.

Subsequent Audits

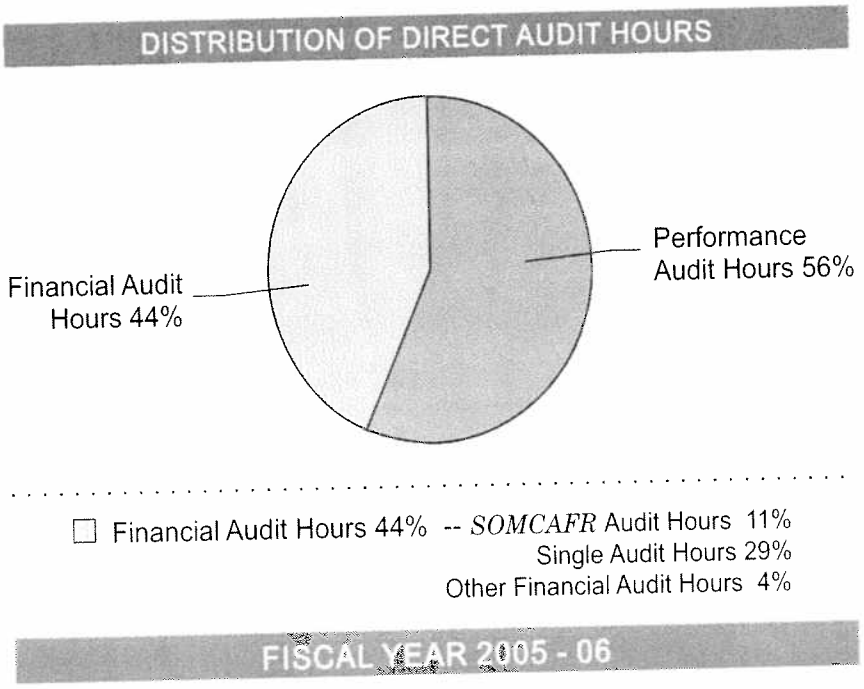
The preparation for subsequent audits begins with a preliminary survey, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG recommendations. Therefore, 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.

Audit Operations

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.

During fiscal year 2005-06, the Bureau completed 59 audit and letter reports (see complete listing starting on page 49). In addition, the Bureau contracted with public accounting firms for 22 financial audits, typically annual audits of some State authorities. Contracting with these public accounting firms enables the Bureau to avoid excessive peak seasonal work loads, to complete the financial audits on a timely basis, and to allocate limited professional staff resources to help meet the OAG's increasing demands for performance audits.

The following graph shows the distribution of direct audit hours used for the different types of audits in fiscal year 2005-06:



Financial Audits

Approximately 44% of our direct audit hours were used for financial audits in fiscal year 2005-06. 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 11% of our direct audit hours were used to complete the *SOMCAFR* audit.

2. Biennial audits, in conformance with the federal Single Audit Act Amendments of 1996, of State departments that receive significant federal funding. Approximately 29% of our direct audit hours were used to complete Single Audits.

3. Periodic audits of other departments, funds, and component units. The composition and frequency of the financial audits are generally based upon risk assessments conducted by the OAG, as well as State and federal mandates. Approximately 4% of our direct audit hours were used to complete other financial audits.

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 Management and Budget (DMB). The *SOMCAFR* is composed of the basic financial statements of the State of Michigan, which include the 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, consisting of 16 authorities and 10 public universities, for which the State is financially accountable.

The OAG annually audits the *SOMCAFR* and the Auditor General issues an independent auditor's report on the State's basic financial statements. For fiscal year 2004-05, the Auditor General's independent auditor's report, dated December 28, 2005, 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 funds.

The OAG recommended 17 audit adjustments of $195.9 million during the fiscal year 2004-05 *SOMCAFR* audit. State agencies and OFM made correcting entries for 8 of the 17 recommended adjustments. The net effect of the uncorrected adjustments was $64.8 million in the government-wide statements and $52.0 million in the fund level statements. Significant audit adjustments

identified during the fiscal year 2004-05 *SOMCAFR* audit included:

Government-Wide Statements and Fund Level Statements:

- OFM did not properly adjust the accrual for tax collections. This error resulted in the incorrect classification of tax receivables by $22.64 million in the government-wide statements and the general fund.

- OFM did not properly account for tax collections. This resulted in the overstatement of accounts receivable and revenue by $12 million in the government-wide statements.

- The Department of Human Services improperly included Claims for Medical in the total claims calculation for the inpatient hospital operating accrual. This resulted in an overstatement of total accounts payable and expenditures of $25.6 million and an overstatement of outstanding accounts payable and expenditures of $1.5 million in the general fund.

- OFM did not properly and consistently capitalize all construction-in-progress (CIP) expenses for capital outlay projects. OFM also did not capitalize federally financed expenses incurred for non-Michigan Department of Transportation (MDOT) construction projects still in process at year end. These errors resulted in an overstatement of expenses and an understatement of assets of $31.6 million in the government-wide statements.

- MDOT improperly included ramp type codes in the calculation of the historical cost for road reconstruction and the historical cost for ramps. This error resulted in an understatement of capital assets of $48 million in the government-wide 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 $300,000 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.

We continue to review our approach to Single Audits in order to increase their effectiveness and efficiency. In fiscal year 2004-05, we completed 12 Single Audits and reported total net questioned costs of $1.4 million. We issued 10 of the 12 Single Audits within the nine month reporting requirement. The other two audits were not released on time primarily because of the number of exceptions identified in the audits, the significance of the findings, and the additional time for due process. In fiscal year 2005-06, we completed 7 Single Audits and reported total net questioned costs of $36.2 million. We issued 6 of the 7 Single Audits within the nine month reporting requirement.

We completed the following Single Audits during fiscal year 2004-05:

1. Department of Agriculture
2. Department of Attorney General

3. Department of Labor and Economic Growth and Michigan Department of Career Development
4. Department of Civil Rights
5. Department of Human Services
6. Department of History, Arts and Libraries
7. State-Funded Judicial Operations
8. Department of Management and Budget
9. Michigan Strategic Fund
10. Michigan Economic Development Corporation
11. Department of State
12. Michigan Department of Transportation

The material exceptions are summarized below:

- Department of Agriculture
  The Department's internal control did not ensure that the Specialty Crops Program complied with federal laws and regulations regarding allowable costs/cost principles; equipment and real property management; matching, level of effort, and earmarking; procurement and suspension and debarment; and subrecipient monitoring. We consider this condition to be a material weakness, which resulted in material noncompliance for the Program. We identified questioned costs of approximately $989,000.

- Department of Attorney General
  The Department had not established a process to record reimbursements for services it provided to other State agencies that ensured compliance with State accounting policy and with generally accepted accounting principles. We consider this to be a material internal control weakness and material noncompliance with Section 18.1485 of the *Michigan Compiled Laws*.

  For fiscal years 2003-04 and 2002-03, the Department incorrectly recorded in the State's accounting system expenditure credits totaling $1.8 million and $2.3 million and interfund transfers totaling $2.6 million and $4.5 million, respectively. As a result, revenue was misstated by $4.4 million and $6.9 million, respectively.

- Department of Human Services
  We concluded that the Department did not comply with federal program requirements regarding activities allowed or unallowed; allowable cost/cost principles; eligibility, matching, level of effort, and earmarking; procurement and suspension and debarment; subrecipient monitoring; and special tests and provisions. This noncompliance resulted in our issuance of adverse opinions for the following programs: Violence Against Women Formula Grants, Temporary Assistance for Needy Families, Child Care Cluster, Foster Care: Title IV-E, Adoption Assistance, and Chafee Foster Care Independent Living. In addition, we issued a qualified opinion on the Low Income Home Energy Assistance Program. Further, the Department was unable to provide sufficient documentation supporting the Department's compliance with the matching, level of effort, and earmarking requirements for the Chafee Foster Care Independent Living Program. We reported total questioned costs of $34 million and likely questioned costs of $651 million.

- Department of History, Arts and Libraries
  The Department's internal control over the Unemployment Insurance (Reed Act Distribution) Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles.

  In addition, the Department's internal control over the State Library Program did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; reporting; and subrecipient monitoring. Our review disclosed a material weakness in internal control used to identify all eligible State expenditures to be used in the determination of the federal level of effort.

We completed and issued the following Single Audits during fiscal year 2005-06:

1. Department of Community Health
2. Department of Corrections
3. 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 Education
  The Department did not comply with federal requirements regarding matching, level of effort, and earmarking for the English Language Acquisition Grants Program. In addition, the Department's internal control did not ensure that the English Language Acquisition Grants Program complied with federal laws and regulations regarding subrecipient monitoring and special tests and provisions. As a result, we questioned costs in the amount of $1.4 million.

  The Department's internal control did not ensure that the Migrant Education - State Grant Program complied with federal laws and regulations regarding activities allowed or unallowed and subrecipient monitoring. As a result, we questioned costs in the amount of $61,568.

  The Department's internal control did not ensure that the Charter Schools Program complied with federal laws and regulations regarding subrecipient monitoring, as required by OMB Circular A-133, Section 400(d)(3). Further, the Department's internal control did not ensure that the Comprehensive School Reform Demonstration Program complied with federal laws and regulations regarding the period of availability of federal funds. As a result, we questioned costs in the amount of $505,511.

- Michigan Department of State Police
  The Department did not comply with generally accepted accounting principles by recording expenditures and federal revenue for six of its federal programs in the proper fiscal year. As a result, the Department understated expenditures, accounts payable, federal revenue, and

receivables by approximately $10.9 million and $2.3 million in fiscal years 2004-05 and 2003-04, respectively. Our review disclosed a material internal control weakness and material noncompliance with federal requirements.

The Department's internal control did not ensure that the Crime Laboratory Improvement - Combined DNA Backlog Reduction Program complied with federal laws and regulations regarding procurement and suspension and debarment. In addition, the Department did not always document proper approval of expenditure transactions.

The Department's internal control did not ensure that it obtained required subrecipient Single Audit reports. Also, the Department's internal control did not ensure that it issued management decisions on subrecipients' audit findings within the time frame required by OMB Circular A-133. Without proper internal control over subrecipient monitoring, the Department cannot be assured that the subrecipients used federal awards in accordance with federal regulations and contract or grant agreements.

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 the financial statements and/or financial schedules.

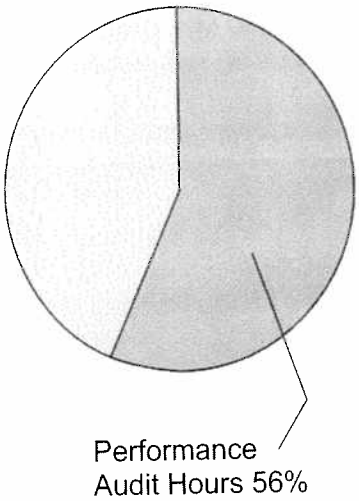
During fiscal year 2004-05, we completed the following financial audits:

1. Michigan State Fair and Exposition Center
2. Commercial Mobile Radio Service Emergency Telephone Fund
3. Michigan Education Trust Plans B and C
4. Michigan Education Trust Plan D
5. Michigan Broadband Development Authority

During fiscal year 2005-06, we completed the following financial audits:

1. Michigan State Fair and Exposition Center
2. Michigan Exposition and Fairgrounds Authority
3. Commercial Mobile Radio Service Emergency Telephone Fund
4. Michigan Legislative Retirement System
5. Michigan Strategic Fund
6. Michigan Education Trust Plans B and C
7. Michigan Education Trust Plan D
8. Michigan Economic Development Corporation
9. School Bond Loan Fund and School Loan Bond Redemption Fund
10. Michigan Broadband Development Authority
11. Department of Civil Service

Performance Audits
Approximately 56% of the Bureau's direct audit hours were used for performance audits in fiscal year 2005-06.



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.

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

Performance Audit of Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration, Department of Community Health
The audit report contained 4 audit findings, 2 of which were classified as material conditions. The material conditions disclosed $55.1 million in either known or questionable Medicaid overpayments.

The Department did not sufficiently monitor its Pharmacy Benefit's Manager (PBM) to ensure that the PBM had effective controls to prevent and detect when pharmacy providers billed Medicaid for certain pharmacy claims that should have been billed to Medicare. As a result, the Department overpaid $15.2 million in Medicaid pharmacy claims for a specific pharmacy product that should have been paid by Medicare. The Department may also have overpaid some portion of another $10.4 million in questionable Medicaid pharmacy claims for other pharmacy products that are sometimes eligible for payment by Medicare.

The Department did not sufficiently monitor and investigate Medicaid fee-for-service prescription drug payments processed by its PBM to help ensure that Medicaid is the payer of last resort. Also, the Department did not determine the appropriateness of questionable third party payment amounts, did not determine if its Third Party Liability section had recovered inappropriate Medicaid payments for pharmacy claims, and did not determine the amounts for which the PBM or pharmacy providers may be liable. The audit report identified approximately $29.5 million in questionable payments to Medicaid for prescription drug claims.

Center for Forensic Psychiatry (CFP) and Related Bureau-wide Reimbursement Activities, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health
The audit report identified potential savings and revenues in excess of $14.5 million. The Department's Centers for Medicare and Medicaid (CMS)-certified facilities did not seek reimbursement from Medicare for bad debt resulting from the unpaid deductibles and coinsurances of Medicare enrolled patients. We estimated that the Department's CMS certified

facilities could have collected additional Medicare reimbursement totaling at least $4 million for the Medicare Part A covered services delivered during fiscal years 1998-99 through 2003-04 and additional smaller reimbursements for the Medicare Part B covered services delivered during the same period.

CFP had not conducted a comprehensive analysis to determine if it would be cost-effective to obtain CMS certification. As a result, CFP may be forgoing Medicare and Medicaid reimbursements that would significantly exceed the costs it would incur to generate them. The audit estimated that CFP could generate approximately $2.44 million in Medicare Part A reimbursements initially and $1.15 million annually, thereafter. Also, CFP could generate Medicare Part A reimbursement of up to $6,900 per patient for those patients that approve the use of their lifetime reserve days. In addition, we estimated that CFP could generate Medicare Part B reimbursements totaling $500,000 annually.

Selected Medicaid Fee-for-Service Payments, Medical Services Administration, Department of Community Health

The Department did not have sufficient controls to ensure that Medicaid payments for beneficiaries entitled to emergency services only (e.g., noncitizens of the United States) complied with federal regulations. As a result, we estimated that the Department paid approximately $1.4 million for Medicaid claims that did not have emergency diagnosis codes for beneficiaries entitled to emergency services only.

The Department did not have controls to prevent, or procedures to immediately recover, fee-for-service overpayments made to physicians and inpatient hospitals for Medicaid beneficiaries who were retroactively enrolled into a managed care health plan. As a result, we estimated that the Department overpaid between $6.3 million and $8.5 million for Medicaid services provided during the period from July 1, 2001 through June 30, 2004.

Northville Psychiatric Hospital (NPH) and Related Closure Activities, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health

The Department did not ensure that NPH established effective controls over its purchasing, receiving, and payment processes. The material weaknesses in NPH's controls unnecessarily elevated NPH's risk for fraud and abuse, permitted unauthorized expenditures, allowed NPH to overpay for some of the goods and services that it purchased, and resulted in inefficient transaction processing. Also, the Department did not ensure that NPH effectively utilized, accounted for, and controlled its equipment and furnishings. In addition, the Department did not ensure that NPH had established effective controls over its medications supplies.

Prisoner Intake Process, Department of Corrections

The Charles E. Egeler Reception and Guidance Center, which handles the male prisoner intake process, was generally effective and efficient in its prisoner intake process. However, the Scott Reception Center (SRC), which handles the female prisoner intake process, was not effective or efficient in its prisoner intake process.

Specifically, SRC needed to improve the effectiveness of its intake process to ensure that female prisoners are processed within the time standards established by the Department. Also, SRC did not properly classify newly incarcerated female prisoners. Further, SRC did not perform health examinations of newly incarcerated prisoners during the prisoner intake process.

Process of Ordering, Collecting, and Applying Fees From Criminal Proceedings
District and circuit courts did not consistently comply with the *Michigan Compiled Laws* when ordering defendants to pay assessments and when applying payments received from defendants. The lack of statutory compliance in ordering assessments resulted in reduced funding of such activities as crime victim's rights services and DNA testing and resulted in defendants being liable for assessments that were not legally required. And, when the courts did not apply defendants' payments properly and timely, it caused further hardship for victims and impacted funding for the courts.

In addition, the Department of Corrections did not apply payments received from probationers and parolees as required by the *Michigan Compiled Laws*. However, the *Michigan Compiled Laws* do not contain specific language authorizing the Department to collect costs, fines, assessments, and other payments arising out of criminal proceedings from prisoners. Such lack of authorization has significantly impaired any collection of payments other than restitution from prisoner accounts.

Accuracy of Prisoner Release Dates, Department of Corrections and Department of Information Technology
The Department of Corrections did not ensure that the Corrections Management Information System (CMIS) was programmed to correctly and completely compute prisoner release dates for all types of sentences. As a result, CMIS inaccurately computed some prisoner release dates resulting in the early release of these prisoners. Also, the Department did not ensure that CMIS had sufficient data edits. In addition, the Department did not always accurately input release data adjustments into CMIS and did not verify the completeness and accuracy of sentencing information received from the courts and make necessary corrections as approved by the courts. Further, the Department had not established a comprehensive information systems security program and complete access controls over CMIS and the Offender Management Network Information System.

Michigan School Readiness Program, Michigan Department of Education
The Department had not tracked Michigan School Readiness Program (MSRP) children or performed analyses of data to measure the academic success of children in MSRP since an initial study conducted for school year 1995-96. As a result, the Department did not know whether MSRP continued to be successful. In addition, the Department had only limited procedures to identify and assist individual grantees that were in need of program improvement.

Solid Waste Disposal and Scrap Tire Program Activities, Department of Environmental Quality
The Waste and Hazardous Materials Division did not comply with State procedures for proper management control over cash receipts for solid waste construction permit and operating license fees.

Child Day Care and Child Welfare Licensing Divisions, Office of Children and Adult Licensing, Department of Human Services

The Office of Children and Adult Licensing (OCAL) needs to improve its effectiveness in licensing child care organizations. OCAL did not always obtain necessary criminal history background information on individuals in child care organizations, including licensees, administrators, directors, and adult household members residing in day care homes. Also, OCAL did not obtain periodic updates of the criminal histories of these individuals.

In addition, OCAL was not effective in performing on-site visits of child day care providers. As a result, OCAL could not ensure that all day care providers met applicable licensing requirements. Further, OCAL did not issue child day care licenses and renewals in a timely manner.

The audit also noted that OCAL had not established effective criminal history background check procedures and had not established and implemented effective procedures to monitor child day care providers with expired licenses and registrations.

Children's Foster Care Program, Department of Human Services

The Department and the contracted service providers generally did not comply with material provisions of State laws and regulations related to the delivery of Program services. The Department did not ensure that its local office workers conducted and documented criminal history background checks and assessed the related risks prior to placing children in the homes of potentially unsuitable relative foster care providers. In addition, the Department procedures did not require periodic updates of the criminal history backgrounds of family foster care licensees, nonlicensed providers who were relatives of the children in foster care, and adult household members residing in foster homes. Also, the Department did not ensure that it obtained Interstate Compact on the Placing of Children agreements with other states for all children in out-of-State foster homes. Further, the Department did not ensure that its caseworkers had performed and documented required visits with children in foster care, their parents, and their foster parents or had facilitated visits between the children and their parents.

Also, the Department was generally not effective and efficient in monitoring the delivery of services by Program contracted service providers. The Department did not sufficiently monitor contracted agencies to ensure that contracted agencies effectively delivered foster care services.

Further, the Department was generally not effective in meeting its outcome goals. The Department did not achieve substantial conformity with any of the seven federally required child welfare outcomes pertaining to safety, permanency, and well-being.

Adult Protective Services, Department of Human Services (Follow-up Report)

This report contains the results of our follow-up of the material findings and corresponding recommendations as reported in the performance audit of Adult Protective Services (APS), Family Independence Agency (FIA) which was issued and distributed in April 2003.

We concluded that the Department had not complied with our recommendation that APS workers conduct thorough investigations to determine whether adults suspected of being abused,

neglected, and/or exploited are in need of protective services. In addition, we concluded that the Department had not complied with our recommendation that the Department ensure that APS workers coordinate and provide appropriate and/or sufficient services to vulnerable adults at risk of harm from abuse, neglect, and/or exploitation. The Department had updated and clarified its policies; however, the policies had not been effective. Also, we concluded that the Department had initiated corrective action but had not yet substantially complied with our recommendation that the Department develop and implement a comprehensive process to evaluate and improve the effectiveness of APS in protecting vulnerable adults.

Michigan Child Support Enforcement System, Department of Human Services and Department of Information Technology

The Department of Human Services (DHS) had not removed confidential and sensitive child support client information from the Michigan Child Support Enforcement System system documentation. As a result, DHS, Department of Information Technology (DIT), Friend of the Court, and prosecuting attorney staff with access to hardcopy and online system documentation could see confidential and sensitive child support client information. Also, DHS and DIT had not established effective database access controls for technical users.

Statewide Information Technology Contracting Practices, Department of Management and Budget and Department of Information Technology

The Department of Management and Budget (DMB) and the Department of Information Technology (DIT) had not established an effective control environment for managing information technology (IT) contracts. DMB's practices for competitively awarding IT contracts were not effective. Also, DMB had not always awarded sole source contracts in accordance with sole source eligibility criteria. In addition, DMB and DIT did not perform critical contract monitoring and audit activities. Further, DMB and DIT should request changes in legislation to update current procurement laws.

Selected Educational Databases Maintained by the Center for Educational Performance and Information, Department of Management and Budget

The Center for Educational Performance and Information (CEPI) did not coordinate the collection of all educational data required by State and federal law from all entities receiving funds under the State School Aid Act. As a result, CEPI did not reduce the administrative burden for reporting entities and it did not provide complete educational data in an easily accessible format to users and State and local policymakers.

CEPI had not developed sufficient procedures to assess the reasonableness of data submitted by school districts. Timely identification of erroneous or missing data using analytical procedures would increase the usefulness of CEPI's databases. Users need to have accurate data for preparing State and federal reports, for evaluating schools' performance, and for making policy decisions.

CEPI and the Michigan Department of Education had not developed adequate procedures to verify the completeness and accuracy of the detailed data within the Single Record Student Database, Registry for Educational Personnel, and School Infrastructure Database. As a

result, the databases contained incomplete and inaccurate data, thereby reducing users' confidence in the data for preparing State and federal reports, evaluating school performance, and making policy decisions.

High School Graduation and Dropout Rates, Center for Educational Performance and Information (CEPI), Department of Management and Budget

CEPI did not have the authority to review high schools' records and the authority to withhold State aid payments for inaccurate reporting or for failure to report graduation and dropout data. As a result, federal agencies, the Legislature, the Michigan Department of Education, local school districts, and parents that use this data to make education policy decisions and to evaluate individual schools' performance as well as the overall quality of education in Michigan cannot be assured that their decisions are based on accurate information.

CEPI had not developed sufficient reasonableness checks and verification techniques to help identify inaccuracies in high school graduation and dropout data prior to using the data to calculate graduation and dropout rates. As a result, CEPI did not detect inaccuracies in the data submitted by high schools.

CEPI had not developed procedures to correct errors in the Single Record Student Database data submitted by high schools. As a result, CEPI reported inaccurate data to the National Center for Educational Statistics (NCES). We noted that CEPI underreported 18,965 (18.9%) of 100,301 and 6,763 (6.8%) of 98,819 students as graduates to NCES for school years 2002-03 and 2003-04, respectively. We also noted that CEPI overreported 6,868 (26.3%) of 26,112 and 10,654 (43.7%) of 24,372 students as dropouts to NCES for school years 2002-03 and 2003-04, respectively.

Procurement Card Program, Department of Management and Budget

The Department should evaluate procurement card usage to identify additional ways for departments to maximize procurement card usage. We estimated a potential operating savings of up to $1.6 million during our audit period from reduced processing costs and increased procurement card rebate earnings.

Also, the Department should analyze departmental procurement card spending and utilize the information and its buying power to negotiate purchasing discount agreements with frequently used vendors. For the selected departments in our review, we estimated that obtaining purchasing discounts from frequently used vendors could have resulted in approximately $2 million in cost savings.

In addition, selected departments did not sufficiently monitor procurement card transactions to ensure that purchases were in compliance with State and department procurement card program policies and procedures.

Sex Offender Registries, Michigan Department of State Police

The Department did not always ensure the accuracy and completeness of data within the sex offender registries. Inaccurate and incomplete information may give the public a false sense of security.

Legislative Requests

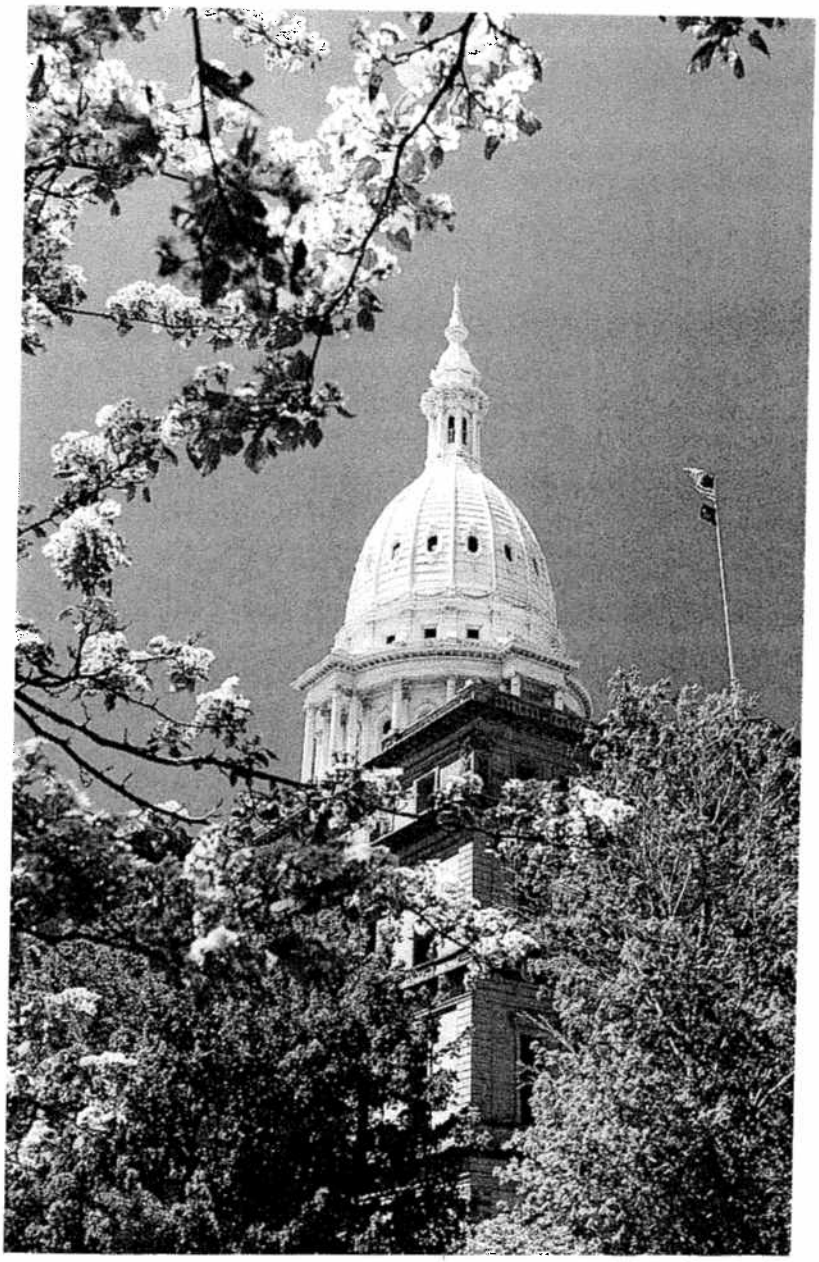
OAG reports provide objective, unbiased, and independently developed information that members of the Legislature confidently use in making State policy decisions. The OAG responds directly to requests from any member of the Legislature to review activities, programs, or funds not included in the scope 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.

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.

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.



The Michigan Legislature

The legislative power of the State of Michigan is vested in a bicameral (two-chamber) body comprised of the Senate and the House of Representatives. The Senate consists of 38 members and the House of Representatives consists of 110 members.

The State Legislature enacts the laws of Michigan; levies taxes and appropriates funds from money collected for the support of public institutions and the administration of the affairs of State government; proposes amendments to the State Constitution, which must be approved by a majority vote of the electors; and considers legislation proposed by initiatory petitions. The Legislature also provides oversight of the executive branch of government through the administrative rules and audit processes, committees, and the budget process; advises and consents, through the Senate, on gubernatorial appointments; and considers proposed amendments to the Constitution of the United States. The majority of the Legislature's work, however, entails lawmaking. Through a process defined by the Michigan Constitution, statute, and legislative rules, the Legislature considers thousands of bills (proposed laws) during each two-year session.

National Awards

National State Auditors Association (NSAA)

The OAG actively participates in NSAA, which is associated with the National Association of State Auditors, Comptrollers, and Treasurers (NASACT). NASACT is an organization for state officials who deal with the financial management of state government. NASACT's membership is comprised of officials who have been elected or appointed to the office of state auditor, state comptroller or state treasurer in the fifty states, the District of Columbia, and U.S. territories. NSAA is dedicated to uniting state auditors by encouraging and providing opportunities for the free exchange of information and ideas among auditors on the state, federal, and local levels.

Since 1999, the NSAA annually solicits nominations for its Excellence in Accountability Award in the areas of large performance audit, small performance audit, and special project. The OAG earned Excellence in Accountability Awards in 2006 in the large performance audit and special project categories.

The OAG earned an Excellence in Accountability Award for the performance audit of the Children's Foster Care Program, Department of Human Services. The audit team consisted of Angela Brown-Schafer, Patricia Chooi, Mark Freeman, Andy Mitchell, Fran Thelen, Gerry Schwandt, and Bryan Weiler. This audit focused on some of Michigan's most vulnerable citizens, foster children, whose well-being depends on the critical services provided by State government. The audit report contained 10 audit findings, 5 of which were classified as material conditions. The audit prompted legislative hearings and the legislature called on the Department to quickly address Program deficiencies identified in the audit.

The OAG earned an Excellence in Accountability Award for the special project, Auditing - The Game. This project was developed as part of an in-house training program that was provided to all OAG audit staff. The project team consisted of Shelly Fanson, Allison Pierce, and Melissa Schuiling. The objective of Audit Lifecycle Training was to teach our audit staff to effectively and efficiently conduct audits. The training focused on the three key phases of an audit: preparation and planning, audit fieldwork, and audit completion. It emphasized the activities that occur during an audit and how to handle delays in completing those activities. It also emphasized the need for effective communication and monitoring of audit progress throughout the audit.

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' perspectives.

The OAG earned Impact Awards in both fiscal years 2004-05 and 2005-06. These national awards recognized the OAG's continued auditing efforts. The OAG has earned Impact Awards for all eight years that the OAG has participated in the NLPES Awards Program.

2005 NLPES Impact Award

The OAG received a 2005 Impact Award for the performance audit of the Bureau of Local Government Services, Department of Treasury. The audit team consisted of Mike Becker, Mark Freeman, Hilary Goerge, Beau Hill, Elden Lamb, Stacie Sampson, and Julie Trierweiler.

National Conference of State Legislatures
National Legislative Program Evaluation Society

2005 Impact Award

presented to

State of Michigan
Office of the Auditor General

in recognition for its report that had significant impact on public policy

Performance Audit of the
Bureau of Local Government Services

Martha Carter, Chair
NLPES

Joe Lawhon, Chair
NLPES Awards Committee

The audit report contained 29 findings, including 16 material conditions. The findings disclosed uncollected State tax revenues and estimated additional tax revenues in the amounts of $82,800,000 and $36,100,000, respectively. Of the four objectives addressed within the report, the audit concluded that the Department was not effective for three of these objectives.

2006 NLPES Impact Award

The OAG received a 2006 Impact Award for the performance audit of the Office of Professional Preparation Services, Michigan Department of Education. The audit team consisted of Jim Bellinger, Christine Covell, Mark Freeman, Jill Gard, Joe Harrison, Andrew Mitchell, Susan Rosenbaum, Gerry Schwandt, and Fran Thelen.

National Conference of State Legislatures
National Legislative Program Evaluation Society

2006 Impact Award

presented to

State of Michigan
Office of the Auditor General

in recognition for its report that had significant impact on public policy

Performance Audit of the
Office of Professional Preparation Services,
Michigan Department of Education

Wade Nelson, Chair
NLPES

Joe Lawton, Chair
NLPES Awards Committee

The audit report contained 14 findings, including 3 material conditions. The report demonstrated that the Office of Professional Preparation Services needs to take a more proactive role in helping to ensure that teachers and other licensed school personnel with criminal convictions are reported to the Department as required by law.

Audit Operations Project Team Award

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

September 2004 AOPTA

The performance audit of Human Resources Management Network (HRMN) Self-Service, Department of Civil Service, was the recipient of the AOPTA for the six months ended September 30, 2004. The audit team consisted of Steve Baker, Shelly Fanson, Paul Jacokes, Lori Mullins, and Melissa Schuiling. The audit report contained 7 findings, including 3 material conditions. The findings disclosed serious weaknesses related to the risk of providing confidential State employee and dependent data over the Internet, ineffective access and password controls over the system, and insufficient Web application security controls.

In response to the audit, the Department enhanced the employee and manager password security system, changed its method of resetting passwords, and required all employees to complete their security profile.

The award for the six-month period ended September 30, 2004 was presented to the team of (left to right) Shelly Fanson and Paul Jacokes (seated), and Steven Baker, Melissa Schuiling, and Lori Mullins.

March 2005 AOPTA

The performance audit of Michigan School Readiness Program (MSRP), Michigan Department of Education, was the recipient of the AOPTA for the six months ended March 31, 2005. The audit team consisted of Melanie Alvord, Laura Hirst, Pamela Huffman, Mary Jo Koschay, Andrew Mitchell, and Therese Regner.

The audit report, which contained 4 findings, involved travel to several school districts and completion of a comprehensive analysis of program and student success. The Department had not evaluated success of the program or its students since the program's inceptions during the1995-96 school year and performed only limited onsite monitoring. The audit crew obtained identifying information about 5,398 pre-school students over a five-year period. The audit crew matched the local school district information to data retained at the State level. The audit crew then evaluated the students' fourth grade Michigan Educational Assessment Program (MEAP) scores, attendance, and grade retention to evaluate the success of MSRP. The audit concluded that, overall, at-risk students that participated in MSRP were significantly more successful than at-risk students that did not participate in MSRP. Further, the audit showed that, overall, the at-risk students that participated in MSRP were performing almost as well as the students that were not at-risk students.

The award for the six-month period ended March 31, 2005 was presented to the team of (left to right) Andrew Mitchell, Laura Hirst, Mary Jo Koschay, Therese Regner, Melanie Alvord, and Pamela Huffman.

September 2005 AOPTA

The performance audit of the Vital Records and Health Data Statistics, Bureau of Epidemiology, Department of Community Health (DCH), was the recipient of the AOPTA for the six months ended September 30, 2005. The audit team consisted of Thomas Beuerle, Michael Gardner, Corrie Jameson, Connie Jones, and Richard Stafford.

This project is an excellent example of a high profile and high impact performance audit of issues that are of high interest to the Legislature, media, and the State's citizens. The audit report contained 11 audit findings, 2 of which were classified as material conditions. We concluded that DCH did not periodically review the controls of local registrar offices or hospitals to ensure that these local units had sufficient safeguards over vital records. We also concluded that DCH did not retrieve vital records in the possession of local clerk offices that no longer had the authority to accept or issue these documents.

The award for the six-month period ended September 30, 2005 was presented to the team of (left to right) Connie Jones, Thomas Beuerle, Michael Gardner, Richard Stafford, and Corrie Jameson.

June 2006 AOPTA

The performance audit of High School Graduation and Dropout Rates, Center for Educational Performance and Information (CEPI), Department of Management and Budget, was the recipient of the AOPTA award for the six months ended June 2006. The audit team consisted of Karen Bosworth, Julius Hampton, Laura Hirst, Mary Lowe, Mary Makovic, Eileen Schneider, and Sara Schondelmayer.

The audit report contained 3 material findings and 2 reportable conditions related to the calculation of graduation and dropout rates. We concluded that Michigan's high school graduation and dropout rates were not accurate and that CEPI's process for calculating the rates was moderately effective. We noted that CEPI did not have the authority to review high school's records and the authority to withhold State aid payments for inaccurate reporting of data or failure to report data; CEPI did not have sufficient reasonableness checks and verification techniques to help identify inaccuracies in the data; CEPI had not developed procedures to correct errors in the data submitted by high schools; CEPI had not developed sufficient edit checks and error reports to ensure that its computer programs were executing properly; and CEPI did not provide high schools with sufficient detailed instructions regarding reporting requirements for migrant education students and midterm promotions.

In response to the audit, CEPI indicated that it agreed and planned to comply with all of the recommendations.

The award for the six-month period ended June 30, 2006 was presented to the team of (left to right) Laura Hirst, Karen Bosworth, Sara Schondelmayer, Julius Hampton, Mary Lowe, and Eileen Schneider. Missing from the picture is Mary Makovic.

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 peer review of the OAG, as well as the OAG's participation in the peer 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. In addition, the Office has developed quality improvement goals that complement the vision, goals, and objectives developed by the Bureau of Audit Operations.

Oversees the quality control system of the OAG

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

Reviews audit reports and working papers to ensure compliance with professional standards

Quality Assurance staff on issues related to conducting and reporting on the various types of audits.

Over the prior two fiscal years, OAG staff also conducted quality assurance reviews of 11 selected audit engagements performed by contracted public accounting firms to determine compliance with contract provisions and adherence to professional standards.

Audit Report Review

Edits the audit reports for substance, correctness, and style

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

Provides timely assistance on accounting and auditing issues

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 47 updates to the OAG Auditor's Manual over the prior two fiscal years.

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, American Institute of Certified Public Accountants, National State Auditors Association, Federal Accounting Standards Advisory Board, and Government Finance Officers Association. Also, we contribute to the profession by making 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 managing our local area network, maintaining our management information system, and providing computer support and software assistance to our staff. Its staff of 11 highly trained professionals help ensure that the OAG continues its standing as a leader in the use of information technology for audit.

The OAG network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability

Local Area Network and Computer Support Section
This Section maintains the OAG local area network and management information system and provides end-user computing (EUC) support to our audit staff. Our local area network, through its connection to the State of Michigan's Wide Area Network, permits both our central office staff and staff at on-site audit locations to share automated information and to communicate vital information electronically. The network provides users with electronic working paper, word processing, spreadsheet, e-mail, Internet browser, automated information analysis, and database software capability. It also provides users with access to our management information system, which contains audit report tracking, personnel, and project management information. EUC support is provided in the form of hardware and software problem solving, hardware maintenance, software development and user training. The Section also ensures that each auditor has a computer and the necessary software to assist in the performance of an audit.

In fiscal year 2005-06, we upgraded our electronic workpaper software and began development of an updated management information system. This provides us with new software features and enhanced management reporting capabilities to promote an efficient work environment.

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.

We continued to expand the content of our Intranet by adding Web enabled application for employee and audit information.

The OAG has the ability to extract and analyze any automated information for audit purposes

Our goals for next fiscal year include completing the upgrade of the management information system and expanding the capability of the use of our Intranet to provide on-demand video training to OAG staff.

Software Assistance Section

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

In fiscal year 2005-06, we continued our emphasis to develop 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. This continues to reduce turnaround time for automated information analysis requests, and it has helped to establish standardized audit processes. Effectiveness and efficiencies also have resulted from our cross-trained and permanently assigned software assistance staff.

Our analysis of automated information has identified weaknesses in agency automated systems and internal control. It has also provided documented support for audit findings contained in our audit reports.

Our goals for next year are to continue to develop standardized automated extraction and analysis procedures to access agency automated information and to continue to expand the use of the various State data warehouses to mine information useful to completing our audits.

Office of Administration

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

Human Resources

The delivery of human resource services is of prime importance to our organization. We strive to develop and implement innovative and effective strategies to enhance recruiting, staff development, and personnel management. We are in the process of rebuilding our audit staff after losing 22 employees to retirement in fiscal year 2002-03. It will be an ongoing challenge to replace these individuals and continue to provide quality services.

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

Recruiting

Because of budget constraints, we had limited campus recruiting activities. During the past two years, we successfully recruited and hired 16 student assistants for limited term appointments and 11 full-time auditors.

Staff Development

We place great importance on developing and retaining staff. All staff members are encouraged and provided the opportunity to develop their professional skills. In addition, the Comptroller General of the United States, the American Institute of Certified Public Accountants, and the State Board of Accountancy require members of the profession to annually obtain continuing professional education. For example, *Government Auditing Standards* require that auditors complete at least 80 hours of continuing education every two years. In fiscal years 2004-05 and 2005-06, the OAG provided approximately 6,683 and 8,056 hours, respectively, of continuing education. Training focused on the implementation of American Institute of Certified Public Accountants Statements on Auditing Standards No. 99; improving performance auditing, audit sampling, and fund accounting procedures; analytical review; audit documentation and security; ethics; project management; and an introduction to information systems auditing. Staff also received writing enhancement training to aide in the development of written

Professional standards require 80 hours of continuing education every two years

audit findings and audit reports. The OAG also provided technical training that covered numerous topics, including overviews of the State of Michigan's accounting system, the OAG's data manipulation software, and *Microsoft Office* advanced features.

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 125 professional audit staff employed at September 30, 2006, 68 had obtained certification from one or more of the various professional certification programs. The OAG professional audit staff included 65 certified public accountants, 4 certified internal auditors, and 11 certified information systems auditors. We also had 5 staff members who had earned master's degrees, 1 staff member who had a Juris Doctor degree, and 7 staff members who had completed associate's degrees in business controls and security, in addition to their bachelor's degrees.

Certified Public Accountants	*65*
Certified Internal Auditors	*4*
Certified Information Systems Auditors	*11*
Master's Degrees	*5*
Associate's Degrees in Data Processing	*7*

During fiscal years 2004-05 and 2005-06, the following OAG staff member became a certified public accountant:
Lori M. Beltran

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 Budgeting

We faced several challenges during fiscal year 2005-06. Like other State departments and agencies, our appropriation was limited which led to a number of uncertainties as we planned our spending for the year.

We were able to address these uncertainties through a great commitment on the part of all OAG staff involved in preparing, approving, and implementing our accounting and budgeting activities.

We expect to meet the closing deadlines established for the OAG and have our books closed by mid-November.

Project and Security Management Section
This Section provides ongoing agency oversight of and security administration for MAIN, DCDS, HRMN, the Management Information Database (MIDB), and the MAIN Access Panel (MAP).

The Section also coordinates compilation and production of our Annual Report and other reports and documents. It uses a variety of electronic publishing hardware and software to create, revise, and enhance our Annual Report, audit reports, office forms, and stationery. Electronic publishing impacts most aspects of OAG operations, enhances the readability of the OAG's published materials, and eliminates the need for external contracting.

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.

We continue to assess the items we carry in our closed stockroom and, after evaluating the need for these items, we relocate commonly used supplies to the open stockroom to allow for greater accessibility for all staff. We also continue to evaluate our ordering and stocking processes to reduce redundancy and improve the entire process.

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

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

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

Payroll/Management Information System (MIS) Input Unit
The Unit's major function is to process payroll transactions for OAG employees. It enters employee time sheets, processes biweekly time and attendance reports, and enters time and attendance into DCDS.

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

Office of the Auditor General
Reports and Other Information

An audit report and its supporting evidence 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)

AUDIT AND LETTER REPORTS COMPLETED DURING FISCAL YEAR 2005-06

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

Project Number	Report Name	Project Type	Recommendations New	Recommendations Repeated
	AGRICULTURE, DEPARTMENT OF			
79-121-05	Emerald Ash Borer Program, Pesticide and Plant Pest Management Division The audit concluded that the Department's education and enforcement efforts relative to the spread of emerald ash borer (EAB) infestations beyond established quarantine areas were moderately effective. However, the audit could not determine what effect, if any, the Department's education and enforcement efforts had in preventing the spread of the EAB beyond established quarantine areas.	Performance	2	0
79-122-05	Environmental Stewardship Division The audit concluded that the Division's promotional efforts relative to natural resources conservation within its mandated responsibility and legal authority were effective. However, the audit could not determine what effect, if any, the Division's promotional efforts had on the conservation of natural resources because the Division had not collected outcome data needed to evaluate program effectiveness.	Performance	1	0
79-305-05	Michigan State Fair and Exposition Center - R The audit included an unqualified opinion on the Center's financial schedules. The audit did not identify any material weaknesses in internal control over financial reporting. However, it did identify reportable conditions. In addition, the audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards.*	Financial	3	0
	CIVIL SERVICE, DEPARTMENT OF			
19-105-05	Department of Civil Service The audit included an unqualified opinion on the Department's financial schedules. The audit did not report any findings related to internal control over financial reporting. In addition, the audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards.* The audit determined that the Department was in compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws.*	Financial	0	0

AUDIT AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 2005-06

Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	COMMUNITY HEALTH, DEPARTMENT OF			
39-115-04	Selected Medicaid Pharmaceutical Drug Transactions, Medical Services Administration The audit concluded that the Department's efforts were not effective in monitoring its contracted pharmacy benefits manager's performance to ensure that Medicaid is the payer of last resort for selected pharmaceutical drug transactions. The audit also concluded that the Department's efforts were moderately effective in preventing and detecting Medicaid payments for pharmaceutical drugs prescribed by service providers excluded (sanctioned) from participating in Medicaid.	Performance	7	0
	CORRECTIONS, DEPARTMENT OF			
47-100-06	Department of Corrections - R The audit included an unqualified opinion on the Department's financial schedules. The audit did not report any findings related to internal control over financial reporting. In addition, the audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, it did identify a reportable condition. The audit covered 6 programs as major programs and issued 6 unqualified opinions. The audit did not report any findings related to internal control over major programs. It did identify instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.	Single	4	1
47-111-05	Office of Community Corrections The audit concluded that the Office's monitoring of local community corrections programs was effective.	Performance	0	0
47-209-05	Cooper Street Correctional Facility The audit concluded that the Facility was generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to gate manifests, tool control, employee searches, prisoner shakedowns and cell searches, metal detector calibration, and security monitoring exercises and fire exit drills.	Performance	8	0
47-219-05	Carson City Correctional Facility and Boyer Road Correctional Facility The audit concluded that the Facilities were generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to gate manifests, security	Performance	5	1

AUDIT AND LETTER REPORTS COMPLETED
DURING FISCAL YEAR 2005-06

Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	monitoring exercises, security threat group prisoners, the self-contained breathing apparatus squad, fire safety, and sanitation and hazardous area inspections. The audit also concluded that the Facilities' food service operations, prisoner accounts, and prisoner store operations were generally effective and efficient.			
47-238-05	Southern Michigan Correctional Facility The audit concluded that the Facility was generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to prisoner shakedowns, prisoner counts, prisoner drug tests, key controls, monthly tool inspections, self-contained breathing apparatus squads, and hazardous materials. The audit also concluded that the Facility's food service operations, prisoner accounts, and prisoner store operations were effective and efficient.	Performance	11	0
47-240-05	Gus Harrison Correctional Facility and Parr Highway Correctional Facility The audit concluded that the Facilities were generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to gate manifests, employee searches, the food service power supply, and the arsenal inventory. The audit also concluded that the Facilities' efforts were effective in establishing and implementing controls to safeguard prisoner accounts and assets of the prisoner store. However, it noted a reportable condition related to reconciliation of the Trust Accounting and Payroll System (TAPS) and the Michigan Administrative Information Network (MAIN). In addition, the audit concluded that the Facilities' food service operations were effective and efficient.	Performance	4	1
47-270-05	Lakeland Correctional Facility and Florence Crane Correctional Facility The audit concluded that the Facilities were generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to tool control, prisoner shakedowns, the self-contained breathing apparatus squad, and radio checks. The audit also concluded that the Facilities' food service operations, prisoner accounts, and prisoner store operations were generally effective and efficient.	Performance	5	1
47-278-05	Ojibway Correctional Facility The audit concluded that the Facility was generally in compliance with selected policies and procedures related to safety and security. However, it noted reportable conditions related to medication control, bubble security, gate manifests, and security threat group prisoners.	Performance	4	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
47-340-96F	Follow-Up Report on Hiring, Training, and Staff Development Programs The follow-up concluded that the Department had complied with all 5 recommendations reported in the performance audit of Hiring, Training, and Staff Development Programs.	Performance	N/A	N/A
47-591-04	Accuracy of Prisoner Release Dates, Department of Corrections and Department of Information Technology The audit concluded that the Department of Corrections was moderately effective in its efforts to ensure the accuracy of prisoner release dates. The audit also concluded that Corrections Management Information System (CMIS) and Offender Management Network Information System (OMNI) access controls were not effective in preventing inappropriate access to information affecting release dates.	Performance	5	0
	EDUCATION, MICHIGAN DEPARTMENT OF			
31-100-06	Michigan Department of Education - R The audit included unqualified opinions on the Department's financial schedules and on the School Aid Fund's financial statements. The audit identified reportable conditions related to internal control over financial reporting. 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 *Government Auditing Standards*. The audit covered 18 programs as major programs and included 3 qualified and 15 unqualified opinions. It identified reportable conditions related to internal control over major programs. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was not in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.	Single	6	7
31-250-05	Migrant, English Language Learners, and Bilingual Programs The audit concluded that the Department's efforts were moderately effective in evaluating the Migrant Program. The audit also concluded that the Department's efforts were moderately effective in evaluating the English Language Learners and Bilingual Programs.	Performance	2	2
	ENVIRONMENTAL QUALITY, DEPARTMENT OF			
76-100-06	Department of Environmental Quality - R The audit included unqualified opinions on the Department's financial statements and financial schedules. The audit did not report any findings related to internal control over financial reporting. In addition, the audit	Single	2	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	did not identify any instances of noncompliance or other matters applicable to the financial statements and/or financial schedules that are required to be reported under *Government Auditing Standards*. The audit covered 8 programs as major programs and issued 8 unqualified opinions. The audit did not identify any material weaknesses in internal control over major programs. However, it did identify reportable conditions. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.			
76-217-05	Clean Michigan Initiative, Environmental Protection Programs - R The audit concluded that the Department's processes for selecting projects to fund with Clean Michigan Initiative (CMI) bond proceeds were effective. However, it did identify a reportable condition. The audit also concluded that the Department was effective in its monitoring efforts of CMI-funded projects. In addition, the audit concluded that the Department's closeout processes for CMI-funded projects were effective. The audit further concluded that the Department was effective in its efforts to evaluate the performance of its CMI programs. However, it did identify a reportable condition.	Performance	2	0
	HISTORY, ARTS AND LIBRARIES, DEPARTMENT OF			
25-231-05	Museum Artifacts and Archival Records, Michigan Historical Center The audit concluded that the Center's efforts were moderately effective in accounting for and safeguarding museum artifacts and archival records and in making these artifacts and records accessible to the public.	Performance	5	2
	HUMAN SERVICES, DEPARTMENT OF			
43-100-05	Department of Human Services - R The audit included unqualified opinions on the Department's financial schedules and on the financial statements of the Children's Trust Fund. The audit identified reportable conditions related to internal control over financial reporting. 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 *Government Auditing Standards*. However, it did identify reportable conditions. The audit covered 16 programs as major programs and identified known questioned costs of approximately $34 million and known and likely questioned costs totaling $651 million. The Department expended a total of	Single	16	19

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	$5.5 billion in federal awards during the two-year period ended September 30, 2004. The audit included 8 unqualified opinions, 1 qualified opinion, and 7 adverse opinions. It identified reportable conditions related to internal control over major programs. It also identified other reportable conditions related to internal control. The audit identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. It also disclosed other instances of reportable noncompliance. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.			
43-121-01F	Follow-Up Report on the Office of Internal Audit The follow-up concluded that the Department had complied with 4 recommendations and had substantially complied with 2 recommendations reported in the performance audit of the Office of Internal Audit.	Performance	N/A	N/A
43-130-04	Office of Quality Assurance The audit concluded that the Office was effective in determining the accuracy of recipient eligibility and benefit decisions for the Food Assistance Program (FAP) and Medicaid. However, it noted reportable conditions related to FAP quality control review sample notification, identification of staff training needs, and Medicaid training.	Performance	4	0
43-142-04	Michigan State Disbursement Unit, Office of Child Support - R The audit concluded that the Unit's efforts were effective in ensuring that the receipt and disbursement of child support remittances were accurate and timely. However, it disclosed reportable conditions related to procedures for the receipt of child support remittances and power supply and backup procedures. The audit also concluded that the Unit's efforts were effective in resolving unidentified child support remittances. In addition, the audit concluded that the Unit's efforts in monitoring the contract with its service provider were effective. However, it disclosed a reportable condition related to bond protection.	Performance	3	0
43-150-04	Recovery Process for Overissuances of Public Assistance Benefits The audit concluded that the Department was moderately effective in identifying and validating overissuances of public assistance benefits. The audit identified reportable conditions related to recipient wage data matches, new employment data matches, welfare fraud hotline referrals, supervisory case reads, and the Recoupment Tracking System. The audit also concluded that the Department's efforts were substantially complete in pursuing overissuance recoveries. The audit identified reportable conditions related to unrecorded Local Accounting System Replacement overissuances, debt collection status listing, and local fiscal office internal control.	Performance	13	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
43-260-02F	Follow-Up Report on Adult Protective Services, Family Independence Agency The follow-up concluded that the Department had not complied with the 3 recommendations reported in the performance audit of Adult Protective Services.	Performance	N/A	N/A
43-595-05	Michigan Child Support Enforcement System, Department of Human Services and Department of Information Technology The audit concluded that the Departments' security and access controls over the Michigan Child Support Enforcement System (MiCSES) were moderately effective. The audit identified reportable conditions related to confidential and sensitive child support client information, database access controls, and user access monitoring. The audit also concluded that the Departments' processing controls were moderately effective in ensuring the integrity of child support data. The audit identified a reportable condition related to duplicate data. In addition, the audit concluded that the Departments' efforts were moderately effective in providing oversight for the development and continued operation of MiCSES. The audit identified a reportable condition related to MiCSES development.	Performance	5	0
43-625-02F	Follow-Up Report on Undistributed and Undistributable Child Support Collections, Child Support Program, Office of Child Support, Family Independence Agency The follow-up concluded that the Program had not complied with the recommendation reported in the performance audit of Undistributed and Undistributable Child Support Collections, Child Support Program, Office of Child Support.	Performance	N/A	N/A
	INFORMATION TECHNOLOGY, DEPARTMENT OF			
50-510-05	Statewide Information Technology Contracting Practices, Department of Management and Budget and Department of Information Technology The audit concluded that the Departments' efforts to administer the information technology (IT) contracting process were ineffective. In January 2003, the Governor appointed a new director of the Department of Management and Budget and a new director of the Department of Information Technology. The new directors initiated projects to improve the IT contracting process. Although the Departments have made improvements in IT procurement and contract administration, significant control weaknesses persist that diminish their efforts to manage IT contracts. The audit concluded that Department of Information Technology efforts to assess the State's need for contracted IT services were moderately effective.	Performance	7	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
50-520-04	Teradata Data Warehouse The audit concluded that the Department's processes to ensure the confidentiality, integrity, and availability of data within the Data Warehouse were ineffective.	Performance	8	0
	LABOR AND ECONOMIC GROWTH, DEPARTMENT OF			
64-143-05	Fire Safety Inspection Program, Bureau of Construction Codes and Fire Safety The audit concluded that the Bureau's efforts to measure the effectiveness of its fire safety inspection program in protecting Michigan citizens from fire and related hazards were moderately effective. The audit also concluded that the Bureau's efforts to ensure that fire safety inspections are performed as required by law were moderately effective.	Performance	7	0
64-801-06	Michigan Strategic Fund (A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Fund's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0
64-806-06	Michigan Economic Development Corporation (A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Corporation's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0
64-810-06	Michigan Broadband Development Authority (A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Authority's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0
	LEGISLATURE			
03-140-05	Michigan Legislative Retirement System - R The audit included an unqualified opinion on the System's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	MANAGEMENT AND BUDGET, DEPARTMENT OF			
07-010-06	State of Michigan Comprehensive Annual Financial Report, Office of the State Budget, Fiscal Year 2004-05 - R	Financial	3	1
07-030-06	*Review of Revenue Subject to Constitutional Limitation (Legal Basis) of the State of Michigan (Section 26), Fiscal Year 2004-05 - R	Financial	N/A	N/A
07-031-06	*Review of Proportion of Total State Spending from State Sources Paid to Units of Local Government (Legal Basis) of the State of Michigan (Section 30), Fiscal Year 2004-05 - R	Financial	N/A	N/A
07-130-05	Support Services Division, Office of Financial Management, Office of the State Budget The audit concluded that the Division's efforts were effective in providing technical assistance and training. However, the audit also concluded that the Division's efforts were moderately effective in providing oversight of the Statewide internal control structure. The audit noted a reportable condition related to the oversight of the Statewide internal control structure.	Performance	1	0
07-131-05	Statewide Cost Allocation Plan The audit concluded that the Department effectively implemented the Statewide Cost Allocation Plan. The audit also concluded that the Department was effective in assessing and recovering central service costs. However, the audit disclosed reportable conditions related to compliance with U.S. Office of Management and Budget Circular A-87 and establishment of billing rates.	Performance	3	0
07-141-04	Workers' Compensation and Long Term Disability Programs, Office of the State Employer The audit concluded that the Office of the State Employer (OSE) was effective in monitoring the third party administrators' (TPAs') administration of the workers' compensation and long term disability (LTD) claims. The audit noted a reportable condition related to the monitoring of the LTD program TPA. The audit also concluded that OSE was effective in its efforts to evaluate and improve the cost-effectiveness of the workers' compensation program. In addition, the audit concluded that OSE was moderately effective in its efforts to evaluate and improve the cost-effectiveness of the LTD program. The audit noted reportable conditions related to independent medical examination data analysis, LTD return-to-work and transitional employment programs, and LTD program analysis. The audit further concluded that OSE was effective in its efforts to provide technical assistance and support to State departments in administration of the workers' compensation and LTD programs.	Performance	4	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
07-180-03	Selected Educational Databases Maintained by the Center for Educational Performance and Information The audit concluded that the Center for Educational Performance and Information (CEPI) was effective in maintaining the educational databases. The audit also concluded that CEPI was moderately effective in becoming the single repository of educational data. The audit noted a reportable condition related to achieving CEPI's statutory responsibility. In addition, the audit concluded that CEPI's efforts were moderately effective in ensuring the completeness and accuracy of the educational data within the Single Record Student Database (SRSD), Registry of Educational Personnel (REP), and School Infrastructure Database (SID) educational databases. The audit noted reportable conditions related to assessing the reasonableness of SRSD, REP, and SID data; verifying data for completeness and accuracy; and improving SID and REP instructions and training.	Performance	4	0
07-181-05	High School Graduation and Dropout Rates, Center for Educational Performance and Information The audit concluded that high school graduation and dropout data used by CEPI in its calculation process was not accurate. The audit disclosed three material conditions related to verification of data accuracy, data evaluation and validation, and correction of Single Record Student Database (SRSD) data. The audit also concluded that CEPI's process for calculating high school graduation and dropout rates was moderately effective. The audit noted reportable conditions related to detection of computer program errors and training and instruction for high schools.	Performance	6	0
07-305-06	Michigan Exposition and Fairgrounds Authority - R The audit included an unqualified opinion on the Authority's financial statements. The audit did not identify any material weaknesses in internal control over financial reporting. However, it did identify reportable conditions. The audit 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*.	Financial	2	0
	MILITARY AND VETERANS AFFAIRS, DEPARTMENT OF			
51-100-06	Department of Military and Veterans Affairs - R The audit included an unqualified opinion on the Department's financial schedules. The audit did not report any findings related to internal control over financial reporting. In addition, the audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, it did identify a reportable condition. The audit cov-	Single	1	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	ered 3 programs as major programs and issued 3 unqualified opinions. The audit did not report any findings related to internal control over major programs. In addition, the audit did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.			
	NATURAL RESOURCES, DEPARTMENT OF			
75-100-06	Department of Natural Resources - R The audit included unqualified opinions on the Department's financial statements and financial schedules. The audit did not identify any material weaknesses in internal control over financial reporting. However, it did identify reportable conditions. The audit did not identify any instances of noncompliance or other matters applicable to the financial statements and/or financial schedules that are required to be reported under *Government Auditing Standards*. The audit covered 6 programs as major programs and issued 6 unqualified opinions. It did not identify any material weaknesses in internal control over major programs. However, it did identify reportable conditions. The audit also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.	Single	8	1
75-150-04	Fisheries Division The audit concluded that the Division was effective in its efforts to ensure that fish released into Michigan water bodies are disease free. However, it noted a reportable condition related to disease testing of non-salmonid fish species. The audit also concluded that the Fisheries Division was moderately effective in its efforts to evaluate its success in meeting its mission, goals, and objectives. The audit noted reportable conditions related to implementing continuous quality improvement processes and identifying and evaluating angler preferences. In addition, the audit concluded that the Division's policies and procedures for minimizing fish loss at State-managed fish hatcheries were effective.	Performance	3	0
	STATE POLICE, MICHIGAN DEPARTMENT OF			
55-100-06	Michigan Department of State Police - R The audit included a qualified opinion on the Department's financial schedules. The audit identified reportable conditions related to internal	Single	5	2

Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	control over financial reporting. The audit considered one finding to be a material weakness. The audit did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*. However, it did identify reportable conditions. The audit covered 11 programs as major programs and issued 8 unqualified opinions and 3 qualified opinions. It identified reportable conditions related to internal control over major programs. The audit considered two findings to be material weaknesses. It also identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133. The audit determined that the Department was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.			
	TRANSPORTATION, MICHIGAN DEPARTMENT OF			
59-320-05	Use of Warranties The audit concluded that the Department's efforts were moderately effective in evaluating whether warranties have improved the quality of pavement construction projects. The audit also concluded that the Department's efforts were moderately effective in ensuring that warranty claims are made when appropriate.	Performance	3	0
	TREASURY, DEPARTMENT OF			
27-147-05	Receipts Processing Division The audit concluded that the Division was moderately effective in its efforts to ensure that receipts are properly safeguarded. The audit disclosed reportable conditions related to service organization controls and banking service agreements. The audit also concluded that the Division was effective in its efforts to ensure that receipts are recorded in a proper and timely manner. In addition, the audit concluded that the Division was effective in its efforts to ensure that compensating balances are reasonable. However, it noted reportable conditions related to verification of banking service charges and recognition of earnings credit and banking service charges.	Performance	6	0
27-250-05	Bureau of Investments The audit concluded that the Bureau's efforts were moderately effective in achieving competitive returns on investments within prudent levels of risk. The audit disclosed a reportable condition related to employee performance evaluations. The audit also concluded that the Bureau's ad-	Performance	7	1

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
	ministrative controls over its investment function were moderately effective. The audit disclosed reportable conditions related to securities litigation, personal trade controls, Investment Protection Principles, real estate investments, and investment activities procedures. In addition, the audit concluded that the Bureau's efforts were moderately effective in ensuring the cost-effectiveness of its investment function. The audit disclosed reportable conditions related to evaluation of investment costs and soft dollar arrangements.			
27-256-06	Transition in the Office of State Treasurer - R This report contains two receipts of State Treasurer and our independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of February 28, 2006 and April 9, 2006 and the note to the financial schedule.	Financial	0	0
27-265-05	Commercial Mobile Radio Service Emergency Telephone Fund - R The audit included an unqualified opinion on the Fund's financial schedules. The audit did not report any findings related to internal control over financial reporting. The audit also did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.	Financial	0	0
27-283-06	Michigan Education Trust Plan D (A Component Unit of the State of Michigan) - R The audit included an unqualified opinion on the Michigan Education Trust Plan D financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0
27-284-06	Michigan Education Trust Plans B and C (A 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. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0

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Project Number	Report Title	Project Type	Recommendations New	Recommendations Repeated
27-305-06	Cadillac Local Development Finance Authority - R The audit concluded that the Authority complied with significant statutory requirements of the local development finance authority program.	Performance	N/A	N/A
27-330-05	School Bond Loan Fund and School Loan Bond Redemption Fund The audit included an unqualified opinion on the School Bond Loan Fund's and the School Loan Bond Redemption Fund's financial statements. The audit did not report any findings related to internal control over financial reporting. The audit 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*.	Financial	0	0
27-410-05	Bureau of State Lottery The audit concluded that the Bureau was effective in its efforts to maintain the integrity of lottery games. However, the audit disclosed reportable conditions. The audit also concluded that the Bureau was effective in its efforts to maximize the proceeds from the sale of on-line and instant ticket lottery games. However, the audit disclosed a reportable condition. In addition, the audit concluded that the Bureau was effective in its efforts to ensure that revenues were processed in a timely, accurate, and secure manner.	Performance	5	0
	UNIVERSITIES			
33-300-06	State Universities' Reporting of Selected Higher Education Institutional Data Inventory (HEIDI) Data - R	Performance	1	0
			201	39

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