PERFORMANCE AND FINANCIAL RELATED AUDIT
OF

SELECTED INTERNAL SERVICE FUNDS

DEPARTMENT OF MANAGEMENT AND BUDGET

June 2002

07-137-01

EXECUTIVE DIGEST

SELECTED INTERNAL SERVICE FUNDS

INTRODUCTION

This report, issued in June 2002, contains the results of our performance* and financial related audit* of Selected Internal Service Funds*, Department of Management and Budget (DMB). The financial-related portion of our audit covered the period October 1, 1998 through September 30, 2001.

AUDIT PURPOSE

This performance and financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*. Financial related audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements.

BACKGROUND

DMB administers five internal service funds. Those are:

1. State Sponsored Group Insurance Fund
2. Information Technology and Energy Fund
3. Motor Transport Fund
4. Office Services Revolving Fund
5. Risk Management Fund

The State Sponsored Group Insurance Fund, which was administratively established to reflect financial transactions

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

of the State sponsored insurance plans, was not reviewed within the scope of the audit.

The Information Technology and Energy Fund was created from the Telecommunications Revolving Fund, effective October 1, 1992. The new fund was established to account for various services provided to all State agencies. These services include telecommunication and information technology. During fiscal year 1999-2000, the use of the Fund was expanded to account for the purchase of bulk natural gas used by State agencies.

As of September 30, 2001, the Information Technology and Energy Fund had 269 full-time employees. The Fund had revenue of $121.4 million, expenses of $120.4 million, and net income of $1.0 million for fiscal year 2000-01.

The Motor Transport Fund was created by Act 260, P.A. 1947, and was continued by Act 431, P.A. 1984, as amended (Sections 18.1213 - 18.1215 of the *Michigan Compiled Laws*). The Fund was created to provide vehicle and travel services to State agencies. Services include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are furnished to agencies on a permanently assigned basis or through the motor pool for short-term usage.

As of September 30, 2001, the Motor Transport Fund had 61 full-time employees. The Fund had revenue of $68.2 million, expenses of $70.4 million, and a net loss of $2.3 million for fiscal year 2000-01.

The Office Services Revolving Fund was created by Act 262, P.A. 1952, and was continued by Act 431, P.A. 1984, as amended (Section 18.1269 of the *Michigan Compiled Laws*). The Fund was created to provide printing, reproduction, microfilm, mailing, and material management

services. The cost of these services is charged to user departments and agencies.

As of September 30, 2001, the Office Services Revolving Fund had 230 full-time employees. The Fund had revenue of $57.9 million, expenses of $62.3 million, and a net loss of $4.5 million for fiscal year 2000-01.

The Risk Management Fund was administratively established during fiscal year 1989-90 to account for centralized risk management* functions performed by DMB for other State agencies. The Fund provides automotive and other insurance coverage to State departments and agencies.

As of September 30, 2001, the Risk Management Fund had 9 full-time employees. The Fund had revenue of $2.9 million, expenses of $2.4 million, and net income of $418,000 for fiscal year 2000-01.

AUDIT OBJECTIVES, CONCLUSIONS, AND NOTEWORTHY ACCOMPLISHMENTS

Audit Objective: To assess the reasonableness of DMB user charges.

Conclusion: We concluded that DMB user charges were generally reasonable. However, we noted a reportable condition* related to working capital reserve* limits (Finding 1).

Audit Objective: To assess the effectiveness and efficiency of DMB's procedures to develop and bill user charges.

Conclusion: We concluded that DMB's procedures to develop and bill user charges were generally effective and efficient. However, we noted reportable conditions

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

related to the establishment and monitoring of contracts, documentation of decisions, and calculation of user charges (Findings 2 through 4).

Noteworthy Accomplishments: DMB periodically compared its user charges with private providers' rates. For example, DMB compared user charges for mail services, freight delivery, and copying and printing activities billed through the Office Services Revolving Fund with rates charged by private providers to ensure that DMB user charges were competitive.

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the program and other records of selected internal service funds of the Department of Management and Budget. Also, our audit scope was to examine the financial records for the period October 1, 1998 through September 30, 2001. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

As part of this report, a summary of operating results, revenue by source, and examples of user charges are presented as supplemental information. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

To accomplish our objectives, we met with DMB personnel and reviewed U.S. Office of Management and Budget (OMB) Circular A-87*, *Cost Principles for State, Local, and Indian Tribal Governments,* and DMB procedures. We

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

also reviewed the processes that DMB used to monitor working capital reserves and financial projections to assess whether user charges were generating sufficient, but not excessive, revenue. In addition, we reviewed the process that DMB used to adjust rates to reflect market or budgetary conditions and analyzed the justifications for these adjustments. We also analyzed surcharges to determine why they were billed and the impact their application had on internal service fund balances.

We reviewed DMB's instructions for calculating user charges, internal service fund strategic business plans, actuarial studies, and contract language to identify procedures that support the calculations. Also, we analyzed financial projections, cost summaries, service use estimates, accounting practices, and management decisions utilized to calculate user charges. In addition, we reviewed a sample of customer invoices to determine whether they were adequately supported. Further, we met with internal service fund customers to obtain feedback on the billing process.

AGENCY RESPONSES AND PRIOR AUDIT FOLLOW-UP

Our report includes 4 findings and 5 corresponding recommendations. The agency's preliminary response indicated that DMB agreed with all 5 recommendations, has complied with 2 recommendations, and will comply with the other 3 recommendations.

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June 4, 2002

Mr. Duane Berger, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Berger:

This is our report on the performance and financial related audit of Selected Internal Service Funds, Department of Management and Budget. The financial related portion of our audit covered the period October 1, 1998 through September 30, 2001.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

Sincerely,

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

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DEPARTMENT OF MANAGEMENT AND BUDGET

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Description of Agency

The Department of Management and Budget (DMB) administers five internal service funds. Those are:

1. State Sponsored Group Insurance Fund
2. Information Technology and Energy Fund
3. Motor Transport Fund
4. Office Services Revolving Fund
5. Risk Management Fund

The State Sponsored Group Insurance Fund, which was administratively established to reflect financial transactions of the State sponsored insurance plans, was not reviewed within the scope of the audit.

The Information Technology and Energy Fund was created from the Telecommunications Revolving Fund, effective October 1, 1992. The new fund was established to account for various services provided to all State agencies. These services include telecommunication and information technology. During fiscal year 1999-2000, the use of the Fund was expanded to account for the purchase of bulk natural gas used by State agencies. The cost of providing these services is charged to user agencies at various intervals.

As of September 30, 2001, the Information Technology and Energy Fund had 269 full-time employees. The Fund had revenue of $121.4 million, expenses of $120.4 million, and net income of $1.0 million for fiscal year 2000-01.

The Motor Transport Fund was created by Act 260, P.A. 1947, and was continued by Act 431, P.A. 1984, as amended (Sections 18.1213 - 18.1215 of the *Michigan Compiled Laws*). The Fund was created to provide vehicle and travel services to State agencies. Services include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are furnished to agencies on a permanently assigned basis or through the motor pool for short-term usage. Agencies are charged for vehicle usage on a monthly basis.

As of September 30, 2001, the Motor Transport Fund had 61 full-time employees. The Fund had revenue of $68.2 million, expenses of $70.4 million, and a net loss of $2.3 million for fiscal year 2000-01.

The Office Services Revolving Fund was created by Act 262, P.A. 1952, and was continued by Act 431, P.A. 1984, as amended (Section 18.1269 of the *Michigan Compiled Laws*). The Fund was created to provide printing, reproduction, microfilm, mailing, and material management services. The cost of these services is charged to user departments and agencies. Resulting revenue is credited to the Fund and is used for administration and operation of the Fund programs.

As of September 30, 2001, the Office Services Revolving Fund had 230 full-time employees. The Fund had revenue of $57.9 million, expenses of $62.3 million, and a net loss of $4.5 million for fiscal year 2000-01.

The Risk Management Fund was administratively established during fiscal year 1989-90 to account for centralized risk management functions performed by DMB for other State agencies. The Fund provides automotive and other insurance coverage to State departments and agencies. The Fund does assume a degree of risk for automotive liability.

As of September 30, 2001, the Risk Management Fund had 9 full-time employees. The Fund had revenue of $2.9 million, expenses of $2.4 million, and net income of $418,000 for fiscal year 2000-01.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance and financial related audit of Selected Internal Service Funds, Department of Management and Budget (DMB), had the following objectives:

1. To assess the reasonableness of DMB user charges.

2. To assess the effectiveness and efficiency of DMB's procedures to develop and bill user charges.

Audit Scope

Our audit scope was to examine the program and other records of selected internal service funds of the Department of Management and Budget. Also, our audit scope was to examine the financial records for the period October 1, 1998 through September 30, 2001. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

As part of this report, a summary of operating results, revenue by source, and examples of user charges are presented as supplemental information. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

Our methodology included examining the records and activities of selected internal service funds covering the period October 1, 1998 through September 30, 2001. Our audit fieldwork was performed between June and October 2001.

To accomplish our first objective, we met with DMB personnel and reviewed U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* and DMB procedures to determine the suggested level of working capital reserves that an internal service fund should maintain. We also reviewed the processes that DMB used to monitor working capital reserves and

financial projections to assess whether user charges were generating sufficient, but not excessive, revenue. In addition, we reviewed the process that DMB used to adjust rates to reflect market or budgetary conditions and analyzed the justifications for these adjustments. We also analyzed surcharges to determine why they were billed and the impact their application had on internal service fund balances. Further, we reviewed summary reports forwarded to the federal government to determine if they were accurate and properly supported.

To accomplish our second objective, we made inquiries of DMB personnel to gain an understanding of the processes used to calculate, monitor, and bill user charges. We analyzed DMB's management control* used to calculate and monitor user charges. This involved reviewing DMB's instructions for calculating user charges, internal service fund strategic business plans, actuarial studies, contract language, and OMB Circular A-87 to identify procedures that support the calculation of user charges and items that impact the calculation process. We analyzed financial projections, cost summaries, service use estimates, accounting practices, and management decisions utilized to calculate user charges. Also, we reviewed the process that DMB used to measure the effectiveness of established user charges. In addition, we reviewed a sample of customer invoices to identify the formats that were used to bill customers and to determine whether the invoices were adequately supported. Further, we met with internal service fund customers to determine how they process invoices and to obtain feedback on potential improvements to the billing process.

Agency Responses

Our report includes 4 findings and 5 corresponding recommendations. The agency's preliminary response indicated that DMB agreed with all 5 recommendations, has complied with 2 recommendations, and will comply with the other 3 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussions subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

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

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

REASONABLENESS OF USER CHARGES

COMMENT

Audit Objective: To assess the reasonableness of Department of Management and Budget (DMB) user charges.

Conclusion: We concluded that DMB user charges were generally reasonable. However, we noted a reportable condition related to working capital reserve limits.

FINDING

1. Working Capital Reserve Limits

DMB did not effectively prevent some internal service funds or their programs from exceeding working capital reserve limits.

DMB uses U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* as a performance standard to monitor the effectiveness of user charges billed to customers. OMB Circular A-87 states that a working capital reserve of 60 days of expenses is reasonable for meeting the needs of a business cycle. Amounts in excess of 60 days may have to be reimbursed to the federal government. DMB generates quarterly and annual financial reports that are used to analyze working capital reserve levels.

Our review of working capital reserves of each internal service fund and its programs disclosed:

a. The Risk Management Fund had reserves exceeding 60 days of working capital from fiscal year 1996-97 through fiscal year 2000-01. The Fund had excess reserves of 140 days ($929,333) at the end of fiscal year 2000-01.

b. The Michigan Information Center Program of the Information Technology and Energy Fund had reserves that exceeded 60 days of working capital by 68 days ($581,000) at the end of fiscal year 1999-2000 and by 89 days

($770,618) at the end of fiscal year 2000-01. DMB staff stated that the excess was caused by the increase in activities and revenue related to requests for information regarding the most recent census. The federal government recently requested that funds be returned from the program.

Developing and applying effective steps to minimize excess working capital reserves would allow DMB to match revenue generated to incurred expenses, provide assurance that the State's limited resources are effectively utilized, and reduce the possibility that federal funds would have to be returned.

RECOMMENDATION

We recommend that DMB prevent internal service funds and their programs from exceeding working capital reserve limits.

AGENCY PRELIMINARY RESPONSE

DMB agreed with the recommendation and informed us that it has complied with federal working capital reserve limits. DMB also informed us that it monitors A-87 balances and, where possible, makes interim adjustments to maintain acceptable reserves.

EFFECTIVENESS AND EFFICIENCY OF PROCEDURES

COMMENT

Background: DMB develops user charges annually for five internal service funds. User charges are based on costs from previous years, projected usage, and decisions based on the experience of DMB staff. Charges are billed at various intervals, based on the type of service provided.

Audit Objective: To assess the effectiveness and efficiency of DMB's procedures to develop and bill user charges.

Conclusion: We concluded that DMB's procedures to develop and bill user charges were generally effective and efficient. However, we noted reportable conditions related to the establishment and monitoring of contracts, documentation of decisions, and calculation of user charges.

Noteworthy Accomplishments: DMB periodically compared its user charges with private providers' rates. For example, DMB compared user charges for mail services, freight delivery, and copying and printing activities billed through the Office Services Revolving Fund with rates charged by private providers to ensure that DMB user charges were competitive.

FINDING

2. Establishment and Monitoring of Contracts

DMB did not establish a contract with the vendor that processed workers' disability compensation claims or a service level agreement with the State agency that warehoused and refurbished telephones. In addition, DMB did not monitor overhead costs incurred by the vendor that processed workers' disability compensation claims to ensure that administrative fees charged were reasonable.

DMB Administrative Guide procedure 0510.13 requires contractual relationships to be established for services provided by outside vendors. The procedure states that contracts shall identify the need for the service, estimate the cost of the service, identify the party to administer the contract, be properly approved, and include performance objectives. Although not specifically required by DMB policy, DMB regularly establishes contracts, called service level agreements, with State agencies that identify the terms and conditions in which a specific service will be provided.

Our review of contracts and service level agreements disclosed:

a. DMB did not establish a contract with the Accident Fund Company. Effective December 1994, Act 200, P.A. 1993 (Section 500.5106 of the *Michigan Compiled Laws*), transferred authority to provide workers' disability compensation insurance and employer's compensation insurance to a private provider. The acquiring insurer, the Accident Fund Company, administers claims for the State related to accidents involving State employees. Its duties include monitoring claim activity, reimbursing individuals for lost wages and medical expenses, and resolving legal issues. The Accident Fund Company bills DMB for expenses incurred plus an administrative fee on medical and indemnity expenses.

Although Act 200, P.A. 1993, allowed the Accident Fund Company to administer the workers' disability compensation for the State for a period of 5 years after the effective transfer date, it did not eliminate the need for a contract detailing services to be provided or costs for services to be reimbursed. The Accident Fund Company was reimbursed for claim payments of $37.9 million, $38.1 million, and $43.7 million for fiscal years 1998-99, 1999-2000, and 2000-01, respectively.

b. DMB did not monitor overhead costs incurred by the Accident Fund Company to ensure that administrative fees charged were reasonable. Act 200, P.A. 1993, allowed the Accident Fund Company to be reimbursed for direct cost plus reasonable allocated overhead. The Accident Fund Company charged DMB a 9.7% administrative fee, which resulted in payments of $3.7 million for fiscal year 1999-2000 and $4.1 million for fiscal year 2000-01. DMB could not substantiate that the costs incurred to establish this administrative fee were reasonable.

c. The DMB Office of Support Services (OSS) did not establish a service level agreement with the DMB Telecommunications Services for warehousing and refurbishing telephones. OSS purchases telephones from Telecommunications Services to refurbish for future use. OSS resells the refurbished phones back to Telecommunications Services for incurred costs plus a markup. Refurbishing includes cleaning a telephone's outside cover, replacing damaged cords or wires, and repairing headphone pieces. Telecommunications Services is OSS's only customer for this service. OSS charged actual cost plus a 28.0% markup for telephones that it warehoused and refurbished and cost plus a 13.0% markup for telephones that it only refurbished. For fiscal year 2000-01, OSS charged $1.0 million for these services. As of September 30, 2001, OSS had an inventory of telephones valued at approximately $303,500.

Developing a contractual agreement for workers' disability compensation and a service level agreement for the warehousing and refurbishing of telephones would itemize the specific services to be provided, identify the party that is to administer the agreement, develop standards by which to analyze performance, and establish methods to monitor costs.

RECOMMENDATIONS

We recommend that DMB establish a contract with the vendor that processes workers' disability compensation claims and a service level agreement with the State agency that warehouses and refurbishes telephones.

We also recommend that DMB monitor overhead costs incurred by the vendor that processes workers' disability compensation claims to ensure that administrative fees charged are reasonable.

AGENCY PRELIMINARY RESPONSE

DMB agreed with the recommendations and informed us that it will establish a contract with a workers' disability compensation claims vendor and a service level agreement with the State agency that warehouses and refurbishes telephones. DMB also informed us that it is now monitoring overhead costs incurred by the vendor that processes workers' disability compensation claims.

FINDING

3. Establishment and Monitoring of Contracts

DMB should document the decisions made that have a significant impact on the calculation of user charges.

DMB calculates user charges based on projections of costs, estimates of usage, and decisions resulting from the professional judgment of DMB staff. Examples of these decisions include: determining whether an internal service fund should incur a profit or a loss during the fiscal year, projecting a service's usage level, and determining whether user charges should be adjusted to be competitive with similar services provided by private vendors. DMB developed 218 types of user charges for services provided during fiscal year 2000-01. The methods it used to calculate user charges vary from fund to fund and between programs within a fund.

We reviewed the calculation of 25 user charges billed during fiscal year 2000-01. Our review disclosed that DMB did have detailed processes established to develop user charges. However, we noted:

a. DMB did not document the decisions it made in adjusting Motor Transport Fund user charges, which were calculated based on costs. DMB applied a detailed process to estimate the costs to operate and maintain vehicles. DMB decided to adjust user charges based on the professional judgment of its staff. The decisions made in adjusting these user charges were not documented. DMB adjusted and billed user charges at rates above those calculated on costs for fiscal year 1999-2000 and below those calculated on costs for fiscal year 2000-01. The Motor Transport Fund experienced net losses of $4.6 million for fiscal year 1999-2000 and of $2.3 million for fiscal year 2000-01.

b. DMB did not document the decisions it made in estimating budgeted costs or usage levels in the calculation of some user charges within the Office Services Revolving Fund. DMB used amounts in calculations that were based on discussions with program managers responsible for the service provided. DMB did not document the results of the discussions. As a result, we could not substantiate the following costs used in the calculation process:

   (1) Administrative costs of $191,532 used to develop mail services user charges.

   (2) Budgeted expenses totaling $356,547 used to develop freight related user charges.

   (3) Usage volumes for the main press shop.

c. DMB did not document the decisions it made in calculating user charges for vehicle insurance within the Risk Management Fund. DMB calculated vehicle insurance user charges by projecting the total cost of providing insurance and dividing these costs among the types of vehicles insured. DMB did not document its decisions as to how costs were split among vehicle types. DMB staff indicated that their decisions were partially based on market research of vehicle insurance coverage. DMB could not provide documentation that this market research was completed. For fiscal years 1999-2000 and 2000-01,

DMB billed vehicle insurance charges of $2.0 million and $2.9 million, respectively.

Documenting managerial decisions would allow DMB to analyze the impact that a decision had on an internal service fund's financial status, provide a means to determine if the results of the decision were effective, and provide a documented test for projecting future amounts.

RECOMMENDATION

We recommend that DMB document the decisions made that have a significant impact on the calculation of user charges.

AGENCY PRELIMINARY RESPONSE

DMB agreed with the recommendation and informed us that it will comply.

FINDING

4. Calculation of User Charges

DMB did not calculate some user charges based on costs.

DMB calculates user charges based on projections of costs, estimates of usage, and decisions resulting from the professional judgment of DMB staff. DMB completes these projections and estimates and makes its decisions on an annual basis and then monitors the results each quarter to determine whether sufficient, but not excessive, revenue is generated.

We reviewed 25 user charges billed during fiscal year 2000-01. Our review disclosed:

a. DMB did not calculate user charges for the Risk Management Fund based on costs:

(1) DMB did not calculate vehicle insurance user charges based on costs specific to vehicle type. As noted in Finding 3, vehicle insurance user charges were calculated by projecting the total cost of providing insurance and dividing these costs among the types of vehicles insured.

DMB reported that it used this process because the claims administrator did not accumulate cost data specific to vehicle type.

(2) DMB did not calculate the administrative overhead user charge it applied to nonvehicle insurance based on costs. In addition to vehicle insurance, DMB procures a wide variety of insurance for the State. Examples include insurance coverage for the State Fair, State aircraft, commercial property, and employee bonding. To recover the costs associated with providing this service, DMB applies a 10.0% user charge to all nonvehicle insurance claims. This user charge was based on a managerial decision and was not supported by costs. For fiscal years 1999-2000 and 2000-01, DMB assessed user charges of $97,803 and $114,500, respectively.

(3) DMB did not include relevant salary and related fringe benefit expenses in calculating insurance user charges. DMB did not include salary and fringe benefit costs of an employee, who estimated 50% of the employee's effort was spent on insurances activities, in user charge calculations.

b. DMB did not maintain cost documentation to support user charges for printing warrants. DMB established a user charge in the Office Services Revolving Fund of $.05 per each warrant printed. DMB stated that it calculated this charge based on costs, market analysis of similar services, and professional judgment. Documentation to support these activities was not maintained. Therefore, we could not substantiate that the $.05 charge was accurate.

Calculating user charges based on costs and retaining supporting documentation would aid in ensuring that user charges are consistently calculated, provide a reliable means to justify rate changes, and make certain that internal service funds are properly reimbursed for services provided.

RECOMMENDATION

We recommend that DMB calculate all user charges based on costs.

AGENCY PRELIMINARY RESPONSE

DMB agreed with the recommendation and informed us that it will comply.

SUPPLEMENTAL INFORMATION

SELECTED INTERNAL SERVICE FUNDS
Summary of Operating Results
Fiscal Years 1997-98 Through 2000-01
(in thousands)

Internal Service Fund	Fiscal Year	Revenue	Expenses	Transfers Out	Net Income (Loss)	Total Net Assets*
Information Technology and Energy	1997-98	$ 94,880	$ 91,035		$ 3,845	$ 937
	1998-99	$ 109,059	$ 104,366		$ 4,693	$ 5,631
	1999-2000	$ 116,802	$ 115,490		$ 1,313	$ 6,943
	2000-01	$ 121,390	$ 120,398		$ 993	$ 7,936
Motor Transport	1997-98	$ 47,271	$ 52,948	$ 25	$ (5,702)	$ 14,675
	1998-99	$ 53,936	$ 53,863	$ 25	$ 48	$ 14,722
	1999-2000	$ 60,950	$ 65,504	$ 24	$ (4,578)	$ 10,144
	2000-01	$ 68,181	$ 70,432	$ 30	$ (2,281)	$ 7,863
Office Services Revolving	1997-98	$ 56,847	$ 55,193	$ 33	$ 1,621	$ 6,015
	1998-99	$ 57,772	$ 58,430	$ 33	$ (691)	$ 5,324
	1999-2000	$ 58,916	$ 59,839	$ 36	$ (960)	$ 5,173
	2000-01	$ 57,860	$ 62,308	$ 28	$ (4,476)	$ 697
Risk Management	1997-98	$ 1,548	$ 3,196		$ (1,648)	$ 5,824
	1998-99	$ 2,386	$ 6,392		$ (4,007)	$ 1,818
	1999-2000	$ 2,342	$ 3,211		$ (869)	$ 948
	2000-01	$ 2,858	$ 2,440		$ 418	$ 1,366

Source: Fiscal year 1997-98, 1998-99, 1999-2000, and 2000-01 *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

* For fiscal years 1997-98, 1998-99, and 1999-2000, total net assets were presented as total fund equity in the *SOMCAFR*.

SELECTED INTERNAL SERVICE FUNDS
Revenue by Source
Fiscal Year 2000-01

Source	Information Technology and Energy Fund	Motor Transport Fund	Office Services Revolving Fund	Risk Management Fund	Total Revenue
Administrative fee from State purchases	$	$	$ 896,894	$	$ 896,894
Agriculture	1,061,842	1,917,138	746,356	8,482	3,733,818
Attorney General	554,506	257,380	423,478	1,462	1,236,826
Auditor General	94,603	51,907	8,935		155,445
Career Development	2,974,727	342,539	517,658	10,433	3,845,357
Civil Rights	211,863	35,571	179,045	109	426,588
Civil Service	807,903	21,407	301,187	1,259	1,131,756
Colleges and Universities		1,368,542	159,668		1,528,210
Community Health	21,544,057	1,415,469	7,156,425	258,889	30,374,840
Consumer and Industry Services	3,991,311	3,266,506	4,585,744	32,157	11,875,718
Corrections	14,649,121	9,989,660	1,372,981	437,130	26,448,892
Education	1,195,904	242,976	681,959	1,767	2,122,606
Employment Services	34,383	172,671	98,373	529	305,956
Environmental Quality	1,401,673	1,793,244	1,229,532	4,449	4,428,898
Executive Office	184,811	14,113	148,053		346,977
Family Independence Agency	31,906,903	6,491,239	8,851,209	114,685	47,364,036
House of Representatives	205,862	13,741	646,768		866,371
Jobs Commission		757,206	750,461	4,976	1,512,643
Judiciary	68,982	484,611	178,785	7,436	739,814
Legislative Service Bureau	44,389	35,683	74,673		154,745
Legislative Retirement	386		2,199		2,585
Library of Michigan	14,348	18,169	20,801		53,318
Lottery	274,252	459,907	268,031	2,002	1,004,192
Management and Budget	7,815,398	1,522,022	3,758,952	1,413,018	14,509,390
Management and Budget Capital Outlay			285		285
Michigan Economic Development Corporation	525,710				525,710
Michigan Gaming Board	247,440	73,052	18,003		338,495
Michigan Strategic Fund		223,397	289,108	69	512,574
Military Affairs	771,651	553,056	223,295	81,597	1,629,599
Natural Resources	1,877,239	8,514,921	1,372,526	152,617	11,917,303
Sale of publications			14,063		14,063
Sale of recycled material			493,143		493,143
Senate	202,747	8,016	325,420		536,183
Senate Fiscal Agency	11	173	113		297
State	8,741,796	576,468	8,231,665	15,186	17,565,115
State Police	6,100,740	19,213,292	1,557,225	59,964	26,931,221
Transportation	3,764,498	7,439,885	1,786,667	239,194	13,230,244
Treasury	9,001,798	395,648	8,543,947	10,652	17,952,045
Non-State agencies	840,706	4,025	1,946,459		2,791,190
Vendor rebates	277,464				277,464
Expenditures, reimbursements and offsets	865	507,261	35		508,161
Total	$ 121,389,889	$ 68,180,895	$ 57,860,121	$ 2,858,062	$ 250,288,967

Source: Revenue summaries prepared by the Department of Management and Budget.

SELECTED INTERNAL SERVICE FUNDS
Examples of User Charges
Fiscal Year 2000-01

Information Technology and Energy Fund

Local call	$.125 per call
Long distance call	$.070 per minute (State average)
Voice line	$17.75 per line/month
Computing - Unisys Platform CPU A18 Production	$485 per hour
Computing - Bull Platform Tape Storage	$.2150 per day

Motor Transport Fund

Midsize passenger vehicle	$157 per month plus $.1427 per mile
Station wagon	$132 per month plus $.2284 per mile
Police deluxe	$260 per month plus $.1614 per mile
Large passenger vehicle	$233 per month plus $.1497 per mile
Half-ton pickup	$.2654 per mile

Office Services Revolving Fund

Consolidated printing	$.039 per image
Warrant printing	$.050 per image
Rapid copy	$.031 per copy
Metered mail	$.0209 per piece
Presorted mail	$.0154 per piece

Risk Management Fund

Type A vehicle insurance	$248 per vehicle/year
Type B vehicle insurance	$169 per vehicle/year
Type C vehicle insurance	$25 per vehicle/year
Other insurance	Actual cost plus a 10% administration fee

Type A vehicles include cars, station wagons, vans, and buses. Type B vehicles include dump trucks, tractor trucks, and stake hoists. Type C vehicles include non-highway vehicles.

Sources: The Department of Management and Budget fiscal year 2000-01 service rate publication and memorandums provided by the Department of Management and Budget.

Glossary of Acronyms and Terms

DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
financial related audit	An audit that is designed to provide reasonable assurance that (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control over financial reporting is suitably designed and implemented to achieve the control objectives.
internal service fund	A fund established to account for services provided to other funds, with the expenses related to providing services to other State departments and agencies financed by user charges. An internal service fund, which accounts for certain areas of risk management, follows accounting standards for insurance-related industries in accordance with statements of the Governmental Accounting Standards Board.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
OMB	U.S. Office of Management and Budget.
OMB Circular A-87	Federal policy that establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments.

OSS	Office of Support Services.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents (1) either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner or (2) a deficiency in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.
risk management	The process of managing an entity's activities to minimize the adverse effects of certain types of loses. The main elements of risk management are risk control (minimization of losses) and risk financing (financing to restore the economic damages of losses).
working capital reserve	Amount of funds in reserve to be utilized for the operation of an entity from one billing cycle to the next.