

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF TREASURY

October 1, 1997 through September 30, 1999

EXECUTIVE DIGEST

DEPARTMENT OF TREASURY

INTRODUCTION

This report contains the results of our financial audit* , including the provisions of the Single Audit Act, of the Department of Treasury for the period October 1, 1997 through September 30, 1999.

AUDIT PURPOSE

This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The Department of Treasury was created by the Executive Organization Act of 1965 (Section 16.175 of the *Michigan Compiled Laws*) and is one of the principal departments of State government.

The State Constitution provides for a State Treasurer in Article 5, Section 3. The Governor appoints the State Treasurer with the advice and consent of the Senate. Under the direction of the State Treasurer, the Department of Treasury is responsible for collecting, investing, and disbursing State funds. The Department administers the major tax laws, administers the audits of county and

* See glossary at end of report for definition.

municipal financial records, cares for abandoned property through escheat, and safeguards the credit of the State and its local governments.

The Department had 1,485 employees as of September 30, 1999. Department expenditures and operating transfers out totaled approximately \$2.5 billion in fiscal year 1998-99.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, consisting of the schedule of expenditures of federal awards and the schedule of taxes by type, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance disclosed instances of noncompliance related to internal audit that could have a direct and material effect on the financial schedules (Finding 1). However, our assessment of the Department's internal control over

financial reporting did not disclose any material weaknesses* .

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its system of internal accounting and administrative control.

Audit Objective: To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Treasury for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

* See glossary at end of report for definition

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report contains 1 finding and 3 corresponding recommendations. The Department's corrective action plan indicates that the Department agrees with the finding and has implemented or plans to implement the related recommendations.

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with 1 of the 2 prior Single Audit* recommendations. The other prior audit recommendation is repeated in this report.

* See glossary at end of report for definition

October 27, 2000

Mr. Mark A. Murray
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Murray:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Treasury for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Treasury's financial schedules and notes to the financial schedules, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary response is contained in the corrective action plan. 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 this audit.

AUDITOR GENERAL

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Description of Agency

The Department of Treasury was created by the Executive Organization Act of 1965 (Section 16.175 of the *Michigan Compiled Laws*) and is one of the principal departments of State government.

The State Constitution provides for a State Treasurer in Article 5, Section 3. The Governor appoints the State Treasurer with the advice and consent of the Senate. Under the direction of the State Treasurer, the Department of Treasury is responsible for collecting, investing, and disbursing State funds. The Department administers the major tax laws, administers the audits of county and municipal financial records, cares for abandoned property through escheat, and safeguards the credit of the State and its local governments.

The Department is organized into the Executive Office and five bureaus: Administrative Services, Controller Operations, Investments, Local Government Services, and Revenue.

The Department provides support services to the following units, which are audited separately: Michigan Education Trust, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan State Hospital Finance Authority, State Assessors Board, and State Tax Commission. By law, these boards operate independent of the State Treasurer, and their members are appointed by the Governor or serve by virtue of their office in State government.

The Department had 1,485 employees as of September 30, 1999. Department expenditures and operating transfers out totaled approximately \$2.5 billion in fiscal year 1998-99.

Audit Objectives and Conclusions, Audit Scope,
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Treasury had the following objectives:

1. To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, consisting of the schedule of expenditures of federal awards and the schedule of taxes by type, in relation to the financial schedules taken as a whole.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Our assessment of compliance disclosed instances of noncompliance related to internal audit that could have a direct and material effect on the financial schedules (Finding 1). However, our assessment of the Department's internal control over financial reporting did not disclose any material weaknesses.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its system of internal accounting and administrative control.

The finding related to our assessment of compliance and internal control over financial reporting is contained in Section II of the schedule of findings and questioned costs* .

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Treasury for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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.

We considered the Department's internal control over compliance applicable to each major program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal programs are identified in Section I of the schedule of findings and questioned costs.

* See glossary at end of report for definition.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 3 corresponding recommendations. The Department's corrective action plan indicates that the Department agrees with the finding and has implemented or plans to implement the related recommendations.

The Department's corrective action plan, which is included in this report, was prepared by the Department as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in the Department's summary schedule of prior audit findings, the Department complied with 1 of the 2 prior Single Audit recommendations. The other prior audit recommendation is repeated in this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable condition* identified that is not considered to be a material weakness? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? No

* See glossary at end of report for definition

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.069	Leveraging Educational Assistance Partnership
84.185	Byrd Honors Scholarships
93.568	Low-Income Home Energy Assistance

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low-risk auditee* ? No

Section II: Findings Related to the Financial Schedules

FINDING (270001)

1. Internal Audit

The Department of Treasury's internal auditor was not organizationally independent, had not conducted audits of the Department's information systems, and had performed duties that were incompatible with the internal audit function:

- a. The Department's internal auditor was under the supervision of the Department's deputy treasurer for financial and administrative services. This is considered a weakness in the Department's internal control because it impairs the internal auditor's independence with respect to financial audits. Section 18.1486(2) of the *Michigan Compiled Laws* requires each department's internal auditor to report to and be under the general supervision of the department head.

We reported this finding in our prior audit. The Department responded that it did not agree with our interpretation of the statute but did agree with the

* See glossary at end of report for definition.

overall concept that the internal auditor should be organizationally independent and felt that it was in compliance.

- b. The Department's internal audit staff had not conducted audits of the Department's information systems as described by written position descriptions and consistent with the *Michigan Compiled Laws*.

The Department has a number of information systems that process financial information. The position descriptions for the Department's internal audit director and audit manager specifically list "Reviewing EDP processes to determine whether adequate documentation and controls exist and that the system is functioning as intended" as one of their job duties.

Section 18.1486(4) of the *Michigan Compiled Laws* mandates that the internal auditor conduct and supervise audits relating to financial activities of the principal department's operations.

- c. Internal audit staff were assigned duties such as compiling the State's year-end accounts receivable and accounts payable accruals and administering the Department's security for mainframe computer applications. The position description for the senior auditor stated that 60% of his time is spent performing the security function.

The performance of these duties is incompatible with the internal audit function because it prevents the auditors from impartially auditing these financial activities. Also, these duties divert limited internal audit resources from conducting audits of the Department's information systems.

RECOMMENDATIONS

WE AGAIN RECOMMEND THAT THE DEPARTMENT PROVIDE FOR THE ORGANIZATIONAL INDEPENDENCE OF THE INTERNAL AUDITOR.

We also recommend that the Department's internal auditor conduct audits of the Department's information systems.

We further recommend that the Department not assign the internal auditor duties that are incompatible with the internal audit function.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

We did not report any audit findings.

There were no prior audit findings related to federal awards.

Independent Auditor's Report on
the Financial Schedules

June 23, 2000

Mr. Mark A. Murray
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Murray:

We have audited the accompanying schedule of revenue and other financing sources and the schedule of sources and disposition of General Fund authorizations of the Department of Treasury for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and other financing sources and the sources and disposition of authorizations for the Department of Treasury's accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of the Department, the State's General Fund, or the State's special revenue funds in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and other financing sources and the sources and disposition of authorizations of the Department of Treasury for the fiscal years ended September 30, 1999 and September 30, 1998, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of taxes by type, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

June 23, 2000

Mr. Mark A. Murray
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Murray:

We have audited the financial schedules of the Department of Treasury for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated June 23, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

June 23, 2000

Mr. Mark A. Murray
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Murray:

Compliance

We have audited the compliance of the Department of Treasury with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the

circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Treasury complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

DEPARTMENT OF TREASURY
Schedule of Revenue and Other Financing Sources
General Fund and Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

	General Fund		Special Revenue Funds		Totals (Memorandum Only)	
	1999	1998	1999	1998	1999	1998
REVENUE						
Taxes (net of refunds)	\$ 10,871,937	\$ 10,164,568	\$ 6,097,053	\$ 5,796,271	\$ 16,968,990	\$ 15,960,838
From federal agencies	3,258	3,683			3,258	3,683
From local agencies	2,770	1,904			2,770	1,904
From services	18,375	18,202	76		18,451	18,202
From licenses and permits	340	307	25		365	307
Miscellaneous	30,105	29,765	10,697	1,585	40,802	31,350
Total Revenue	\$ 10,926,784	\$ 10,218,428	\$ 6,107,851	\$ 5,797,856	\$ 17,034,635	\$ 16,016,284
OTHER FINANCING SOURCES						
Proceeds from bonds	\$ 0	\$ 0	\$ 0	\$ 160,256	\$ 0	\$ 160,256
Operating transfers:						
From other funds	\$ 129,692	\$ 116,653	\$ 5,978	\$ 1,444	\$ 135,670	\$ 118,097
From component units	296	118			296	118
Total Operating Transfers	\$ 129,988	\$ 116,771	\$ 5,978	\$ 1,444	\$ 135,966	\$ 118,214
Total Other Financing Sources	\$ 129,988	\$ 116,771	\$ 5,978	\$ 161,700	\$ 135,966	\$ 278,471
Total Revenue and Other Financing Sources	\$ 11,056,772	\$ 10,335,199	\$ 6,113,829	\$ 5,959,555	\$ 17,170,601	\$ 16,294,754

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF TREASURY
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	<u>1999</u>	<u>1998</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations (Note 2a)	\$ 283,849	\$ 298,696
Balances carried forward (Note 2b)	249,566	246,541
Restricted financing sources (Note 2c)	2,224,464	2,065,119
Less: Intrafund expenditure reimbursements	<u>(3,100)</u>	<u>(1,217)</u>
Total	<u>\$ 2,754,779</u>	<u>\$ 2,609,139</u>
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures and operating transfers out	\$ 2,475,227	\$ 2,359,412
Less: Intrafund expenditure reimbursements	<u>(3,100)</u>	<u>(1,217)</u>
Net expenditures and operating transfers out	<u>\$ 2,472,127</u>	<u>\$ 2,358,195</u>
Balances carried forward:		
Multi-year projects	\$ 31,689	\$ 27,396
Encumbrances	6,010	4,809
Restricted revenue - authorized	1,563	1,479
Restricted revenue - not authorized (Note 2d)	<u>228,359</u>	<u>215,882</u>
Total balances carried forward	<u>\$ 267,621</u>	<u>\$ 249,566</u>
Balances lapsed	<u>\$ 15,031</u>	<u>\$ 1,378</u>
Total	<u>\$ 2,754,779</u>	<u>\$ 2,609,139</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the General Fund financial transactions of the Department of Treasury for the fiscal years ended September 30, 1999 and September 30, 1998 and also include a portion of tax and other revenues collected for special revenue funds. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying schedule of revenue and other financing sources is not intended to report all revenue collected by the Department of Treasury. The schedule presents revenue resulting from the Department's administration of the State's major tax laws and certain other revenue and federal revenue generated by the Department's various programs and interdepartmental services. These revenues are accounted for principally in the State's General Fund. The accompanying schedule of sources and disposition of General Fund authorizations includes the Department of Treasury's General Fund accounts. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of the Department, the State's General Fund, or the State's special revenue funds in accordance with generally accepted accounting principles.

Amounts in the "Totals (Memorandum Only)" columns represent summations of the governmental fund types and are presented only for analytical purposes. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.

- d. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.

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SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF TREASURY
Schedule of Taxes by Type
General and Special Revenue Funds
Fiscal Years Ended September 30
(In Thousands)

<u>Source</u>	<u>General Fund</u>		<u>Special Revenue Funds</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Taxes (net of refunds):				
Personal income tax	\$ 5,545,143	\$ 5,093,289	\$	\$
Sales tax	1,288,708	1,231,209	3,643,368	3,482,087
Single business tax	2,360,533	2,349,148		
Use tax	751,298	670,236	375,407	337,625
Tobacco tax	175,923	161,745	394,374	362,974
Estate tax	174,891	110,383		
Insurance retaliatory tax	194,482	138,764		
Telephone company tax	150,334	151,964		
Intangibles tax	570	45,012		
Penalties and interest - various taxes	143,797	122,939		
Industrial facilities tax			136,450	115,341
Diesel fuel tax			170	203
Gas and oil severance tax	23,383	30,124		
Convention facility development tax	16,789	15,619		
Liquor tax	25,461	24,575		
Airport parking tax	14,967	13,593		
State education property tax			1,532,135	1,484,725
Other taxes	<u>5,659</u>	<u>5,967</u>	<u>15,148</u>	<u>13,315</u>
Total Taxes	<u>\$ 10,871,937</u>	<u>\$ 10,164,568</u>	<u>\$ 6,097,053</u>	<u>\$ 5,796,271</u>

* Amounts in the "Totals (Memorandum Only)" columns represent summations of the governmental fund types and are presented only for analytical purposes. Consequently, amounts shown are not comparable to a consolidation.

Totals*	
(Memorandum Only)	
<u>1999</u>	<u>1998</u>
\$ 5,545,143	\$ 5,093,289
4,932,076	4,713,295
2,360,533	2,349,148
1,126,705	1,007,861
570,297	524,719
174,891	110,383
194,482	138,764
150,334	151,964
570	45,012
143,797	122,939
136,450	115,341
170	203
23,383	30,124
16,789	15,619
25,461	24,575
14,967	13,593
1,532,135	1,484,725
<u>20,807</u>	<u>19,283</u>
<u>\$ 16,968,990</u>	<u>\$ 15,960,838</u>

DEPARTMENT OF TREASURY
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1997 through September 30, 1999.

		For the Fiscal Year Ended September 30, 1998			
Federal Agency/Program	CFDA** Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Education					
Direct Programs					
Leveraging Educational Assistance Partnership	84.069		\$ 2,108,036	\$	\$ 2,108,036
Byrd Honors Scholarships	84.185		<u>1,074,480</u>		<u>1,074,480</u>
Total U.S. Department of Education			<u>\$ 3,182,516</u>	<u>\$ 0</u>	<u>\$ 3,182,516</u>
U.S. Department of Health and Human Services					
Pass-Through Program					
Family Independence Agency					
Low-Income Home Energy Assistance	93.568	IA98-007	\$ 500,000	\$	\$ 500,000
Low-Income Home Energy Assistance	93.568	IA99-004			
Total U.S. Department Of Health and Human Services			<u>\$ 500,000</u>	<u>\$ 0</u>	<u>\$ 500,000</u>
Total Expenditures of Federal Awards			<u>\$ 3,682,516</u>	<u>\$ 0</u>	<u>\$ 3,682,516</u>

* Basis of Presentation: This schedule includes the federal grant activity of the Department of Treasury and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

<u>For the Fiscal Year Ended September 30, 1999</u>			
<u>Directly</u> <u>Expended</u>	<u>Distributed to</u> <u>Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>	<u>Total Expended</u> <u>and Distributed</u> <u>for the</u> <u>Two-Year Period</u>
\$ 1,055,732	\$	\$ 1,055,732	\$ 3,163,768
<u>1,452,000</u>		<u>1,452,000</u>	<u>2,526,480</u>
<u>\$ 2,507,732</u>	<u>\$ 0</u>	<u>\$ 2,507,732</u>	<u>\$ 5,690,248</u>
\$	\$	\$	\$ 500,000
<u>750,000</u>		<u>750,000</u>	<u>750,000</u>
<u>\$ 750,000</u>	<u>\$ 0</u>	<u>\$ 750,000</u>	<u>\$ 1,250,000</u>
<u>\$ 3,257,732</u>	<u>\$ 0</u>	<u>\$ 3,257,732</u>	<u>\$ 6,940,248</u>

OTHER REQUIRED SCHEDULES

DEPARTMENT OF TREASURY
Summary Schedule of Prior Audit Findings
As of June 23, 2000

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 279802
Finding: The Department of Treasury's internal control structure did not provide for compliance with State cash management standards.
Comments: The Department has enhanced its internal control structure to provide for compliance with State cash management standards.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 279801
Finding: The Department's internal auditor was not organizationally independent.
Comments: The Department feels that its internal auditor is adequately independent.

DEPARTMENT OF TREASURY

Corrective Action Plan

As of September 22, 2000

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 270001
Finding Title: Internal Audit
Management Views: We agree with the recommendations and will comply.
Corrective Action: We will have the Office of Internal Audit report directly to the State Treasurer.

We will evaluate the internal controls of the information systems and include reviews of the systems in the audit schedule of Department programs.

We have transferred the compilation of year-end accruals to the Budget and Accounting Division. Since administering the security process now requires less time than stated in the finding and most of the process is decentralized, we feel that our final preaudit role does not impair our objectivity.

Anticipated Completion Date: January 1, 2001
Responsible Individual: Julie Croll, Deputy State Treasurer, Financial and Administrative Services

Glossary of Acronyms and Terms

CFDA

Catalog of Federal Domestic Assistance.

financial audit

An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.

internal control

A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

low-risk auditee

As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, Single Audits of the State of Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material weaknesses

A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

OMB	U.S. Office of Management and Budget.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>