

FINANCIAL AUDIT
OF THE
EXECUTIVE OFFICE

October 1, 2000 through September 30, 2002



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

Report Number:
01-100-03

Executive Office

October 1, 2000 through September 30, 2002

Released:
December 2002

A financial audit determines if the financial schedules are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial schedules. This financial audit of the Executive Office was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Schedule:

Auditor's Report Issued

We issued an unqualified opinion on the Executive Office's schedule of sources and disposition of General Fund authorizations.

~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

~ ~ ~ ~ ~

**Noncompliance Material to
the Financial Schedule**

We did not identify any instances of noncompliance applicable to the financial schedule that are required to be reported under *Government Auditing Standards*.

Background:

The Executive Office includes the Governor and Lieutenant Governor and their staffs. As Michigan's chief executive officer, the Governor sets overall policy direction for the executive branch, appoints most department directors and members of State boards and commissions, recommends the State budget to the Legislature, and has numerous other responsibilities outlined by the Constitution of 1963 and State statutes.

Executive Office activities are financed from the General Fund. As of September 30, 2002, the Executive Office had 49 classified employees and 10 unclassified employees.

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

James S. Neubecker, C.P.A., C.I.A., D.P.A.
Executive Deputy Auditor General

Scott M. Strong, C.P.A., C.I.A.
Director of Audit Operations

This page left intentionally blank.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 20, 2002

The Honorable John M. Engler
Governor of Michigan
George W. Romney Building
Lansing, Michigan

Dear Governor Engler:

This is our report on the financial audit of the Executive Office for the period October 1, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's report on the financial schedule; and the Executive Office's schedule of sources and disposition of General Fund authorizations, notes to the financial schedule, and supplemental financial schedule. This report also contains our independent auditor's report on compliance and on internal control over financial reporting and a glossary of acronyms and terms.

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

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

EXECUTIVE OFFICE

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULE

Independent Auditor's Report on the Financial Schedule	7
Executive Office Financial Schedule	
Schedule of Sources and Disposition of General Fund Authorizations	9
Notes to the Financial Schedule	10

SUPPLEMENTAL FINANCIAL SCHEDULE

Schedule of Disposition of General Fund Authorizations by Appropriation Line Item	14
--	----

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	15
--	----

GLOSSARY

Glossary of Acronyms and Terms	17
--------------------------------	----

This page left intentionally blank.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedule

December 16, 2002

The Honorable John M. Engler
Governor of Michigan
George W. Romney Building
Lansing, Michigan

Dear Governor Engler:

We have audited the accompanying schedule of sources and disposition of General Fund authorizations of the Executive Office for the fiscal years ended September 30, 2002 and September 30, 2001. This financial schedule is the responsibility of the Executive Office management, in conjunction with the Department of Management and Budget management. Our responsibility is to express an opinion on this financial schedule based on our audit. The financial transactions of the Executive Office are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. 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 schedule includes only the sources and disposition of authorizations for the Executive Office's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, this financial schedule does not purport to and does not constitute a complete financial presentation of either the Executive Office or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the sources and disposition of authorizations of the Executive Office for the fiscal years ended September 30, 2002 and September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2002 on our tests of the Executive Office's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying supplemental financial schedule, the schedule of disposition of General Fund authorizations by appropriation line item, is presented for purposes of additional analysis and is not a required part of the Executive Office's financial schedule referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedule and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedule taken as a whole.

AUDITOR GENERAL

EXECUTIVE OFFICE
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2002</u>	<u>2001</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations	\$ 5,480,900	\$ 5,651,200
Balances carried forward	33,026	70,425
Restricted financing sources	225,885	12,546
Less: Intrafund expenditure reimbursements	<u>(59,893)</u>	
Total	<u>\$ 5,679,918</u>	<u>\$ 5,734,172</u>
DISPOSITION OF AUTHORIZATIONS		
Gross expenditures	\$ 5,443,277	\$ 5,664,393
Less: Intrafund expenditure reimbursements	<u>(59,893)</u>	
Net expenditures	\$ 5,383,384	\$ 5,664,393
Balances carried forward:		
Encumbrances	28,412	10,020
Restricted revenue - not authorized	248,891	23,006
Balances lapsed	<u>19,231</u>	<u>36,753</u>
Total	<u>\$ 5,679,918</u>	<u>\$ 5,734,172</u>

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

Notes to the Financial Schedule

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedule reports the results of the financial transactions of the Executive Office for the fiscal years ended September 30, 2002 and September 30, 2001. The financial transactions of the Executive Office 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 this financial schedule relate directly to the Executive Office. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Pension Benefits and Other Postemployment Benefits; and Compensated Absences.

The Executive Office includes the Governor and Lieutenant Governor and their staffs. As Michigan's chief executive officer, the Governor sets overall policy direction for the executive branch, appoints most department directors and members of State boards and commissions, recommends the State budget to the Legislature, and has numerous other responsibilities outlined by the Constitution of 1963 and State statutes.

Executive Office activities are financed from the General Fund. As of September 30, 2002, the Executive Office had 49 classified employees and 10 unclassified employees.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedule contained in this report is presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available.

Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedule includes only the sources and disposition of authorizations for the Executive Office's General Fund accounts. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Executive Office or the State's General Fund in accordance with generally accepted accounting principles.

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 appropriations 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 are 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 revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance 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. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.
- e. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

SUPPLEMENTAL
FINANCIAL SCHEDULE

EXECUTIVE OFFICE
Schedule of Disposition of General Fund Authorizations by Appropriation Line Item
Fiscal Years Ended September 30

	2002				2001			
	Total Authorizations	Expenditures	Balances Carried Forward	Balances Lapsed	Total Authorizations	Expenditures	Balances Carried Forward	Balances Lapsed
Governor's salary	\$ 176,600	\$ 176,546	\$	\$ 54	\$ 167,300	\$ 167,291	\$	\$ 9
Lieutenant Governor's salary	123,600	123,583		17	116,000	115,913		87
Unclassified salaries	833,100	830,408		2,692	820,400	783,743		36,657
Executive Office	<u>4,546,618</u>	<u>4,252,847</u>	<u>277,303</u>	<u>16,468</u>	<u>4,630,472</u>	<u>4,597,446</u>	<u>33,026</u>	
Total	<u>\$ 5,679,918</u>	<u>\$ 5,383,384</u>	<u>\$ 277,303</u>	<u>\$ 19,231</u>	<u>\$ 5,734,172</u>	<u>\$ 5,664,393</u>	<u>\$ 33,026</u>	<u>\$ 36,753</u>



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

December 16, 2002

The Honorable John M. Engler
Governor of Michigan
State Capitol
Lansing, Michigan

Dear Governor Engler:

We have audited the schedule of sources and disposition of General Fund authorizations of the Executive Office for the fiscal years ended September 30, 2002 and September 30, 2001 and have issued our report thereon dated December 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Executive Office's financial schedule is 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Executive Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule 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 Executive Office's management, the State's management, and the Legislature 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

Glossary of Acronyms and Terms

financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, 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.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing this "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.